Manitoba

REPORT OF THE PROVINCIAL AUDITOR to the Legislative Assembly for the fiscal year ended March 31, 1985

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REPORT OF THE PROVINCIAL AUDITOR FOR THE YEAR ENDED MARCH 31, 1985

LEGAL PROVISIONS

This report is being made to the Legislative Assembly of Manitoba for the fiscal year ended March 31, 1985 in compliance with subsections (1), (1.1), (2) and (3) of section 13 of The Provincial Auditor's Act. These subsections of section 13 of the Act are as follows:

Report to assembly.

13(1) The Provincial Auditor shall report annually to the assembly

(a) on the work of his office; and

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Content of the report.

13(1.1) Each report of the Provincial Auditor under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the assembly, including any cases in which he has observed

(a) that accounts have not been faithfully and properly maintained or public moneys which are required by law to be fully accounted for and paid into the Consolidated Fund have not been so accounted for and paid;

(b) that essential records have not been maintained or that the rules and procedures applied have been insufficient

(i) to safeguard and control public property, or

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue, or

(iii) to ensure that expenditures have been made only as authorized; and

(c) that public moneys have been expended other than for the purposes for which it was appropriated by the Legislature.

Submission of report.

13(2) The report of the Provincial Auditor shall, on or before the thirty-first day of December next after the close of the fiscal year for which it was made, be delivered to the Lieutenant Governor in Council to be laid before the assembly if it is then in sesssion, or, if the assembly is not then in session, within fifteen days after the commencement of the next ensuing session.

Distribution of report to members of assembly.

13(3) The Lieutenant Governor in Council, upon receiving the report of the Provincial Auditor, shall direct that copies of the report be sent to the members of the assembly.

In accordance with the aforementioned requirements of the Act, I report on significant matters where difficulties have been observed and any other matters which I consider should be brought to the attention of the Legislative Assembly. This is being done in a manner as outlined in Exhibit 1 of this report under reporting procedures. The report maintains continuity of matters reported from year to year. Any observations in the previous year's report which required further action are commented on again in this year's report, providing an updated position.

I also report that, in carrying on the work of my office, I received all the information and explanations I required.

INTRODUCTORY COMMENTS

As indicated in the Legal Provisions section of this report, section 13 of The Provincial Auditor's Act requires that the Provincial Auditor report annually to the Legislative Assembly on the work of his Office and that the report call attention to anything that the Provincial Auditor considers to be of significance and of a nature that should be brought to the attention of the Legislative Assembly. Accordingly, in reading this report it must be remembered that the matters reportable under section 13 are, or arise mainly from, administrative problems. This report, therefore, is a report by exception and as such cannot be a balanced report. As a consequence, the report emphasizes concerns, without recognizing situations where no serious concerns were observed. It is important to acknowledge that most audits for the 1984-85 fiscal year did not result in matters being noted which were considered to be of a nature to be reported to the Legislative Assembly.

Based on the work of the Office, I consider that the financial affairs of the Province were generally administered in a satisfactory manner during the 1984-85 fiscal year. Furthermore, the financial controls and records maintained by the Province and its agencies have generally continued to improve. This is mainly due to the continued efforts of Government and its managers to improve the management processes and practices; it is also in part due to the positive response that our recommendations receive from all levels of management. A general assessment of the quality of the Province's financial administration should not detract from the importance of the observations and recommendations for improvement summarized under the heading Summary of Matters of Concern and Recommendations, and commented on in greater detail in later sections in this report.

The various matters being reported on are covered in the following sections in this report:

Assets and Liabilities - Overview Comments
Operating Fund Assets and Liabilities
Trust Fund Assets and Liabilities
Revenue and Expenditure
Special Warrants
Government's Central Management System
Review of Government Control over Compensation by Crown agencies
Government-Wide Reviews
Departments and Agencies Operations
Organization and Activities of the Provincial Auditor's Office
Acknowledgements

The report also includes 12 exhibits which provide additional information for matters commented on. A number of these exhibits are reproductions from the Public Accounts - the main financial statements and my report thereon.

The financial statements of the Government of the Province of Manitoba for the fiscal year ended March 31, 1985 have been prepared under the direction of the Minister of Finance by staff of the Department of Finance in accordance with the provisions of The Financial Administration Act, and appear in Volume 1 of the Public Accounts. Those financial statements have been examined under my direction as required by section 14 of The Provincial Auditor's Act. My report on the financial statements is included as Exhibit 7 of this report.

SUMMARY OF MATTERS OF CONCERN AND RECOMMENDATIONS

A summary of the more significant matters of concern and recommendations included in the various sections of this report is as follows:

Assets and Liabilities

- The Province raised a portion of its financing in the past year through a sale and lease-back arrangement for certain of its lands and buildings with an indirectly wholly-owned Corporation which conducted a public offering of preferred shares. These arrangements have resulted in substantial transactions being reflected in the Province's accounts. Additional sale and lease-back transactions with the Corporation subsequent to March 31, 1985, have been entered into based upon the additional capital raised by the Corporation due to the exercise of warrants issued on the public offering. Because these transactions have a material affect on the financial position of the Province, we recommend that the Province either include statements in Public Accounts reflecting a consolidation of its accounts and those of the corporations involved in this financing arrangement or include a statement in Public Accounts showing the adjustments which would have been made if the Province had presented its accounts and those of the corporations involved in this financing arrangement on a consolidated basis. This additional information would provide a reader with information to appreciate the substance of the transactions and eliminate the fragmentation of financing costs under the current presentation.

Revenue and Expenditure

- A more appropriate means of funding and disclosing losses on Crown corporation operations is required. Funding of these losses from a Government appropriation is recommended so that the operating losses of the Crown corporations are reflected in the Summary of Revenue and Expenditure in Public Accounts.
- Information following the Excess of Expenditure Over Revenue in the Summary of Revenue and Expenditure is helpful only in gaining a partial understanding of the effects of expenditure related to capital assets. We recommend that this information be supplemented with other pertinent information pertaining to such expenditures and reflected on a supporting schedule to provide an appreciation of the full effect of capital asset expenditures on Government operations. This would eliminate any uncertainty as to the operating results for the year and would provide a reader with better information on expenditure related to capital assets.
- The Government's payment of interest on surplus equity funds of the Manitoba Development Corporation on deposit with the Minister of Finance results in a duplication of interest charges in the Government's interest expense appropriation. We recommend that this matter be given further consideration and that steps be taken to eliminate the duplication of interest charges.
- A subsidy is being paid by the Manitoba Development Corporation to fund the operations of the Communities Economic Development Fund. Subsidies of this type are usually paid from an appropriation of Government. We recommend that in the future this subsidy be paid from an appropriation of the Government so that the subsidy is reflected in the Summary of Revenue and Expenditure in Public Accounts.

SUMMARY OF MATTERS OF CONCERN AND RECOMMENDATIONS

Government's Central Management System

Department of Finance

- A multi-year financial plan would be of considerable assistance to legislators for reviewing the budget and Estimates. This plan would also be of assistance to individual departments in clarifying longer term program priorities and objectives. We recommend that a multi-year financial plan be made available to legislators.
- Funds were again approved for certain job creation expenditures in a separate appropriation designated "Jobs Fund". While these expenditures have been allocated to three main sectors, details of programs planned or departments responsible for program delivery have not been provided. To improve legislative control over these expenditures, we recommend that an Estimates Supplement be prepared for the Jobs Fund appropriation, similar to that being phased in for operating departments.

Civil Service Commission

- The Commission is in the process of developing a comprehensive managerial resources plan. However, before training of current and future managers can proceed effectively, a management skills framework model needs to be developed. We recommend that such a skills model be developed on a priority basis.
- The Commission has not yet issued guidelines for performance appraisals. Appraisals are an important part of the process in determining developmental needs of staff at all levels. We recommend that the Commission issue such guidelines to departments as soon as practicable.

Review of Government Control Over Compensation By Crown Agencies

- There is no system in place to provide a rationale for the significant variations in the compensation levels of senior executives and managers, who are excluded from the bargaining process, between the various Crown agencies and between those agencies and the Civil Service. We recommend that the Government implement an administrative system to monitor the salaries of these senior executives and other managers. This system should include documentation of the rationale for the variations in compensation, and should be administered by an individual or central organization delegated by Government.

Government-Wide Reviews

- Departments which do not issue departmental annual reports do not fulfill the communication and accountability expectations for the funds provided to them. We recommend that all departments provide annual reports to the Legislature and hence to the public.

SUMMARY OF MATTERS OF CONCERN AND RECOMMENDATIONS

Departments and Agencies Operations

Department of Education

- We have been reporting for several years that a change is needed to Regulation 12/81 to require municipalities to make more timely payments of school tax levies to school divisions and the Public Schools Finance Board. We again recommend that appropriate changes be made to this regulation as soon as possible to make the timing of remittances more in line with tax collections.

Flyer Industries Limited

- This Corporation is continuing to experience substantial losses on operations. Although there have been improvements in operations, further significant improvements are required. We are advised that a decision by the Government regarding the future of this Corporation is expected shortly.

Workers Compensation Board

- Non-compliance with section 66(1) of The Workers Compensation Board Act in setting rates has resulted in the Board incurring substantial deficits in the Class Fund. The Government has recently appointed a committee to review the compensation system in Manitoba. We are hopeful that the Committee will complete its review on a timely basis and that the review will result in recommendations which, when implemented, will bring the Board's activities into compliance with legislation and result in the adoption of a sound fiscal policy for funding the Board's operations.

ASSETS AND LIABILITIES - OVERVIEW COMMENTS

Accounting policies

The assets and liabilities are accounted for in accordance with accounting policies stated in the Public Accounts and reproduced in this report in Exhibit 12. The assets and liabilities are reflected in the Consolidated Fund which is divided into two sections: the operating fund assets and liabilities section and the trust fund assets and liabilities section. There were no changes in accounting policies durirg the fiscal year ended March 31, 1985.

Operating fund assets and liabilities

The operating fund assets and liabilities are stated in the Public Accounts, and the statement is reproduced in this report in Exhibit 8.

The total liabilities at March 31, 1985 increased by $451.0 million from the preceding year-end, from $5,346.2 million to $5,797.2 million. The total increase resulted from net increases in public debt of $360.4 million, accounts payable and other liabilities of $34.4 million, and trust funds used for operations in the amount of $56.2 million.

The increased total liabilities of $451.0 million is offset by changes to asset and other accounts as follows *(in millions of dollars):*

Increases:	
Excess of expenditure over revenue for the year ended March 31, 1985	$ 482.5
Advances to and investments in Government agencies	74.3
Temporary investments and other assets	101.0
Securities received from the sale of land and buildings to Manitoba Properties Inc. - see comments under the heading Manitoba Properties Inc. in the Operating Fund Assets and Liabilities section	129.0
	786.8
Decreases:	
Excess of Liabilities over Recorded Assets - being proceeds from sale of land and buildings to Manitoba Properties Inc. - see comments under the heading Manitoba Properties Inc. in the Operating Fund Assets and Liabilities section	323.7
Principal repayments on Serial Debentures transferred from The Manitoba School Capital Financing Authority	12.1
	335.8
	$ 451.0

Further particulars on these matters are included in the Operating Fund Assets and Liabilities section of this report.

ASSETS AND LIABILITIES - OVERVIEW COMMENTS

Guaranteed Debt and Indirect Liabilities

The guaranteed debt and indirect liabilities, reflected in the statement of Operating Fund Assets and Liabilities, increased by $206.2 million at March 31, 1985 from the preceding year-end, from $1,402.6 million to $1,608.8 million. The net increase is accounted for as follows *(in millions of dollars)*:

Preferred shares issued by Manitoba Properties Inc.	$ 278.2
Issue of guaranteed debt:	
Manitoba Telephone System	17.8
Manitoba Hydro-Electric Board	25.0
Refinancing of Government agency guaranteed debt by way of direct debt of the Province	(3.9)
Retirement of maturing debt	(10.4)
Increase in sinking funds and other related trust funds	(100.5)
Net increase	$ 206.2

Further particulars on these matters are included in the Operating Fund Assets and Liabilities section of this report.

Trust fund assets and liabilities

The trust fund assets and liabilities are stated in the Public Accounts, and the statement is reproduced in this report in Exhibit 8.

The trust fund assets and liabilities are segregated into two categories: administered trust funds and custodial trust funds.

The administered trust funds increased by $121.5 million at March 31, 1985 from the preceding year-end, from $946.0 million to $1,067.5 million. The net increase consisted of the following *(in millions of dollars)*:

Funds deposited with the Minister of Finance for investment	$ 102.9
Sinking funds for securities issued by Government agencies	19.2
Miscellaneous trust accounts	(.6)
Net increase	$ 121.5

The custodial trust funds increased by $29.0 million at March 31, 1985 from the preceding year-end, from $429.0 million to $458.0 million. The net increase consisted of the following *(in millions of dollars)*:

Civil Service Superannuation Fund	$ 24.0
Public Trustee	6.0
Sundry net decrease	(1.0)
Net increase	$ 29.0

Further particulars are included in the Trust Fund Assets and Liabilities section of this report.

OPERATING FUND ASSETS AND LIABILITIES

Working Capital

The particulars of the working capital are as follows *(in millions of dollars):*

	March 31 1985	1984	Increase (Decrease)
Assets			
Temporary investments	$ 890.8	$ 799.7	$ 91.1
Current amounts due from Canada and other external sources	94.0	89.0	5.0
	984.8	888.7	96.1
Liabilities			
Amount owing to the Trust Fund	525.9	469.7	56.2
Bank overdraft and promissory notes	41.7	80.5	(38.8)
Accounts payable, accrued charges and funds subject to call	447.9	374.7	73.2
	1,015.5	924.9	90.6
Working capital	$ (30.7)	$ (36.2)	$ 5.5

The cash flow, except for bank short-term borrowing and trust funds, is generally consistent from year to year. The increasing Excess of Liabilities Over Recorded Assets has a significant impact on cash flow requirements. The ratio of assets to liabilities is mainly dependent on the timing of long-term borrowing to refinance short-term bank borrowing. There can also be fluctuations in the amount of trust funds used depending on their availability. In accordance with an order of the Lieutenant Governor in Council, the aggregate of promissory notes outstanding and bank lines of credit utilized is not to exceed $350 million.

In addition to the current amounts due from Canada and other external sources of $94.0 million at March 31, 1985 ($89.0 million at March 31, 1984) shown above, accounts receivable from municipal corporations and other third parties of $44.9 million at March 31, 1985 ($40.0 million at March 31, 1984) are included in the Public Accounts in the Advances and Other Receivables from Government of Canada and Others amount on the Operating Fund Assets and Liabilities statement. All these accounts are considered to be fully collectible except for a Legal Aid shared cost claim from Canada of $1.4 million, and an advance of $3.0 million to Canadian Co-operative Implements Ltd. (C.C.I.L.). Under the terms of a November 1984 amendment to the Legal Aid agreement, Canada will not pay this claim for 1982-83 unless the current agreement is terminated within the next ten years. Since there is presently no indication that the current agreement will be terminated, the claim for $1.4 million will be written off in 1985-86. The Government is still reviewing its options with respect to the advance to C.C.I.L. which, as reported last year, was experiencing significant operating losses and was in an accumulated deficit position. This situation deteriorated in 1984-85 and C.C.I.L. has sold its manufacturing operation. We understand that the continuing viability of this company is being examined and a capital restructuring of the company is being considered by the Province of Manitoba, two other provinces, the Government of Canada, and various cooperatives which have made investments in the company.

OPERATING FUND ASSETS AND LIABILITIES

Last year we reported that in 1984-85 the Province would be implementing our recommendation to discontinue accruing interest payable to be consistent with the treatment of all other expenditure. This recommendation was not implemented in 1984-85 because the Province is planning to have a fuller accrual basis of accounting for both revenue and expenditure in 1985-86. The move toward accounting on a fuller accrual basis is in accordance with recommendations being developed as General Standards of Financial Statement Presentation For Governments by a committee of the Canadian Institute of Chartered Accountants. The standards are being developed to provide guidelines for reporting principles and standards of disclosure in federal, provincial and territorial governments. The Deputy Minister of Finance is an active member of the committee which is developing these standards. I am pleased that general standards of financial statement presentation for governments are in process of being formally established.

Advances to and Long-Term Investments in Government Agencies, Tantalum Mining Corporation of Canada Limited and Northland Bank

Investments in Government agencies are the same as advances except that they are covered by legal instruments consisting of debentures and shares.

The particulars of the net change in advances, long-term investments, allowances for losses and sinking funds are as follows *(in millions of dollars)*:

	March 31		
	1985	1984	Increase
Government agencies:			
Advances	$ 2,173.8	$ 2,130.2	$ 43.6
Investments	291.6	247.4	44.2
	2,465.4	2,377.6	87.8
Other investments:			
Tantalum Mining Corporation of Canada Limited	3.3	3.3	—
Northland Bank	.5	.5	—
	2,469.2	2,381.4	87.8
Less:			
Allowances for losses on the basis of accumulated deficits in accordance with the most recent audited financial statements	173.6	131.6	42.0
Sinking funds of Government agencies on account of debt incurred by the Province	102.2	88.7	13.5
	275.8	220.3	55.5
	$ 2,193.4	$ 2,161.1	
Net change			$ 32.3

OPERATING FUND ASSETS AND LIABILITIES

The net change of $32.3 million by agency is as follows *(in millions of dollars)*:

Agency	Advances and Investments	Less: Allowance for Losses	Less: Sinking Funds	Net Change
Manfor Ltd.	$ 44.3	$ 9.4	$ —	$ 34.9
Manitoba Agricultural Credit Corporation	15.6	—	—	15.6
Manitoba Beef Stabilization Fund	6.0	7.6	—	(1.6)
Manitoba Crop Insurance Corporation	4.8	3.0	—	1.8
Manitoba Data Services	(3.3)	—	—	(3.3)
Manitoba Development Corporation	14.0	17.4	—	(3.4)
Manitoba Energy Authority	.6	.6	—	—
Manitoba Hog Income Stabilization Plan	3.1	1.8	—	1.3
Manitoba Housing & Renewal Corporation	43.5	—	1.2	42.3
Manitoba Hydro-Electric Board	(22.6)	—	9.6	(32.2)
Manitoba Mineral Resources Ltd.	—	2.4	—	(2.4)
Manitoba Oil and Gas Corporation	—	.5	—	(.5)
Manitoba Telephone System	(19.2)	—	2.7	(21.9)
Manitoba Water Services Board	.5	(1.0)	—	1.5
Venture Manitoba Tours Ltd.	.3	.3	—	—
Other	.2	—	—	.2
Increase	$ 87.8	$ 42.0	$ 13.5	$ 32.3

The principal repayments and/or interest charges for some of the advances are dependent on total or partial funding from future appropriations of the Consolidated Fund. The major agencies to which this applies are the Manitoba Housing and Renewal Corporation, for most of the principal and interest funding, and the Manitoba Agricultural Credit Corporation, for partial interest funding only.

Manitoba Properties Inc.

During the year ended March 31, 1985 the Province passed legislation which enabled it to raise a portion of its financing requirements through an indirectly wholly-owned corporation, Manitoba Properties Inc. The Province sold certain of its land and buildings to the corporation and entered into a 99 year lease-back arrangement with the corporation. The financing for this transaction included the issuing by the corporation of 8,000,000 9 1/4% cumulative, redeemable, retractable Series A preferred shares at an issue price of $25 per share. Each Series A preferred share included a warrant which allowed the shareholder to purchase an additional Series A preferred share for $25 until July 15, 1985. The total of the shares issued and warrants exercised as at March 31, 1985 was $278.2 million, of which $78.1 million pertaining to the exercise of warrants was held in trust by the Minister of Finance.

OPERATING FUND ASSETS AND LIABILITIES

The sale and lease-back arrangement through wholly-owned corporations and the issuance of shares to the public is something very new in governmental financing. Unlike the private sector where such an arrangement is common, and when undertaken through controlled corporations, would result in a consolidation of accounts of the parent entity and its subsidiaries for financial statement purposes, the accounts of the Province have not been consolidated with those of the corporations involved in this arrangement. Consolidations are undertaken to eliminate the effects of aspects of operations between the entities other than those affecting third parties. Had the Province adopted the consolidation basis, the significant changes would be the elimination of the receivable created by the sale of land and buildings to Manitoba Properties Inc. in the amount of $129.0 million, together with an increase in liabilities of $201.9 million to reflect the repayment required to satisfy the redemption of preferred shares of Manitoba Properties Inc. (with an approximately equivalent decrease in guaranteed liabilities), and the offset to these which is an increase in the Excess of Liabilities over Recorded Assets of $330.9 million on the Operating Fund Assets and Liabilities statement. There would also be an increase in the Excess of Expenditure over Revenue of $7.2 million, being $5.4 million for issuance and administrative costs and $1.8 million representing the difference between the dividends paid by Manitoba Properties Inc. and the net costs reflected in the Public Accounts in the Summary of Revenue and Expenditure.

From April 1, 1985 to July 15, 1985, the expiry date of the warrants, further warrants were exercised in the amount of $121.0 million. Together with the $78.1 million referred to above, and the original amount issued of $200.0 million, the total shares issued and outstanding total $399.1 million. The accounting entries required to complete the recording of the transactions pertaining to the warrants have not yet been completed. Repayment and an equivalent adjustment to the accounts would be required if the preferred shares are retracted or redeemed at some point in the future.

In order to improve the presentation of these financial transactions in the Government's accounts and provide a more complete overview of the financial position of the Government, we recommend that the Government adopt the practice of including statements in the Public Accounts showing the accounts of Manitoba Properties Inc. consolidated with the Public Accounts, or that a statement showing the effect of consolidating the above transactions be included in the Public Accounts as further pertinent information. This information will be more important in the 1985-86 Public Accounts because of the effect of the significant number of shares issued after March 31, 1985.

OPERATING FUND ASSETS AND LIABILITIES

Excess of Liabilities over Recorded Assets

Changes in the excess of liabilities over recorded assets, by its two components, are as follows *(in millions of dollars)*:

	March 31		
	1985	1984	Increase (Decrease)
Accumulation of the excess of expenditure over revenue and advances to and investments in Government agencies written off:			
Balance at beginning of year	$ 1,923.6	$ 1,411.8	$ 511.8
Prior year's adjustments:			
Prior year's school expenditure	—	72.1	(72.1)
Prior year's revenue in hands of collection agents	—	(40.5)	40.5
Manfor Ltd. investment written off	—	51.3	(51.3)
Proceeds from the sale of land and buildings to Manitoba Properties Inc.	(323.7)	—	(323.7)
Adjusted balance	1,599.9	1,494.7	105.2
Excess of expenditure over revenue for the year	482.5	428.9	53.6
Balance at end of year	2,082.4	1,923.6	158.8
Allowances for losses of Government agencies:			
Balance at beginning of year	131.6	134.9	(3.3)
Changes for the year	42.0	(3.3)	45.3
Balance at end of year	173.6	131.6	42.0
Excess of liabilities over recorded assets, balance at end of year	$ 2,256.0	$ 2,055.2	$ 200.8

The balance of the first component of the excess of liabilities over recorded assets of $2,082.4 million as at March 31, 1985 ($1,923.6 million as at March 31, 1984) is an accumulation of net expenditures for lasting tangible assets, lasting intangible benefits and accumulated excess of expenditure over revenue which were funded by public debt to be serviced from future revenues. This accumulation includes a reduction of $323.7 million from the sale of land and buildings to Manitoba Properties Inc.

OPERATING FUND ASSETS AND LIABILITIES

The particulars of the balance of the allowance for losses of government agencies for the year ended March 31, 1984, changes during the year and balance as at March 31, 1985 are as follows *(in millions of dollars)*:

	Balance 1984	March 31 Changes 1985	Balance 1985
A. E. McKenzie Co. Ltd.	$ .1	$ —	$ .1
Manfor Ltd.	80.4	9.4	89.8
Manitoba Beef Stabilization Fund	8.2	7.6	15.8
Manitoba Crop Insurance Corporation	—	3.0	3.0
Manitoba Development Corporation (applicable to losses of Flyer Industries Ltd. and A. E. McKenzie Co. Ltd.)	33.9	17.4	51.3
Manitoba Energy Authority	—	.6	.6
Manitoba Hog Income Stabilization Plan	4.5	1.8	6.3
Manitoba Mineral Resources Ltd.	1.0	2.4	3.4
Manitoba Oil and Gas Corporation	—	.5	.5
Manitoba Water Services Board	3.5	(1.0)	2.5
Venture Manitoba Tours Inc.	—	.3	.3
	$ 131.6	$ 42.0	$ 173.6

Direct Public Debt

A summary of direct public debt and other data pertaining thereto is as follows *(in millions of dollars)*:

Direct public debt, net of sinking funds:

	March 31 1985	1984	Increase
Bonds, debentures and other debt instruments	$ 5,471.3	$ 4,966.3	$ 505.0
Less sinking funds	660.1	515.5	144.6
	4,811.2	4,450.8	360.4
Less debentures issued under financial assistance agreements, see particulars below	29.5	29.5	—
	$ 4,781.7	$ 4,421.3	$ 360.4

Debentures of $29.5 million were issued in 1982-83 in accordance with agreements between the Province and the Credit Union Stabilization Fund for $25.0 million, and between the Province and Les Fonds de Sécurité des Caisses Populaires for $4.5 million. The debentures are being held by the Province to be cancelled at maturity July 7, 1987. The purpose of these debentures is to provide annual grants to the aforementioned entities equal to the annual interest of 14 7/8 percent stated for the debentures. The annual grants are charged to an appropriation voted for this purpose in the Department of Co-operative Development.

OPERATING FUND ASSETS AND LIABILITIES

The direct public debt is repayable in the following currencies *(in millions of dollars)*:

Type of Currency	March 31 1985	1984	Increase (Decrease)
Canadian Dollars	$ 2,902.8	$ 2,699.4	$ 203.4
Foreign debt stated at exchange rates at the date the debt was incurred:			
United States Dollars	1,321.6	1,212.0	109.6
Swiss Francs	509.0	460.9	48.1
Japanese Yen	511.9	386.2	125.7
Deutsche Marks	187.3	167.9	19.4
European Units of Account	38.7	39.9	(1.2)
	2,568.5	2,266.9	301.6
	$ 5,471.3	$ 4,966.3	$ 505.0
Foreign debt calculated at exchange rates at each year-end	$ 2,768.4	$ 2,465.9	$ 302.5

Foreign debt due within the next three fiscal years, comparing book value with value at exchange rates at March 31, 1985 (rated value) is as follows *(in millions of dollars)*:

	March 31 1986		1987		1988	
Type of Currency	Book Value	Rated Value	Book Value	Rated Value	Book Value	Rated Value
European Units of Account	$ 34.3	$ 33.1	$ 1.1	$ 2.1	$ 1.1	$ 2.1
Japanese Yen	11.3	15.5	33.5	48.2	6.9	9.0
Swiss Francs	6.3	8.4	6.3	8.4	6.3	8.4
United States Dollars	3.1	4.1	16.0	19.1	16.0	19.1
	$ 55.0	$ 61.1	$ 56.9	$ 77.8	$ 30.3	$ 38.6

OPERATING FUND ASSETS AND LIABILITIES

Guaranteed Public Debt

The summary of guaranteed public debt and other data pertaining thereto is as follows *(in millions of dollars)*:

Guaranteed public debt, net of sinking funds:

	March 31		
	1985	1984	Increase
Securities guaranteed	$ 1,950.4	$ 1,643.7	$ 306.7
Less sinking funds and other related trust funds	341.6	241.1	100.5
	1,608.8	$ 1,402.6	$ 206.2

The increase in guaranteed public debt of $306.7 million is accounted for as follows *(in millions of dollars)*:

Manitoba Properties Inc.	
This represents the total of the 9 1/4% cumulative redeemable, retractable Series A preferred shares issued and warrants exercised as at March 31, 1985 as explained under the heading Manitoba Properties Inc.	$278.2
Increase in guaranteed debt:	
Manitoba Telephone System	17.8
Manitoba Hydro-Electric Board	25.0
	42.8
	321.0
Less:	
Refinanced by an increase in the direct debt of the Province:	
Manitoba-Hydro Electric Board	3.9
Repaid from Sinking Funds and/or by cash:	
University of Manitoba	4.2
Manitoba Telephone System	3.6
Manitoba Hydro-Electric Board	2.3
Other	.3
	10.4
	14.3
Net increase	$ 306.7

OPERATING FUND ASSETS AND LIABILITIES

The guaranteed debt is repayable in the following currencies *(in millions of dollars)*:

Type of Currency	March 31 1985	March 31 1984	Increase (Decrease)
Canadian Dollars	$ 953.3	$ 640.5	$ 312.8
Foreign debt stated at exchange rates at the date the debt was incurred:			
United States Dollars	930.9	930.9	—
Swiss Francs	56.1	56.1	—
Deutsche Marks	9.2	13.8	(4.6)
Pounds Sterling	.9	2.4	(1.5)
	997.1	1,003.2	(6.1)
	$ 1,950.4	$ 1,643.7	$ 306.7
Foreign debt calculated at exchange rates at each year-end	$ 1,364.0	$1,301.2	$ 62.8

Guaranteed foreign debt due within the next three fiscal years, comparing book value with value at exchange rates at March 31, 1985 (rated value) is as follows *(in millions of dollars)*:

	March 31 1986		1987		1988	
Type of Currency	Book Value	Rated Value	Book Value	Rated Value	Book Value	Rated Value
United States Dollars	$158.4	$209.2	$ —	$ —	$26.9	$34.2
Deutsche Marks	2.3	3.4	2.3	3.4	4.6	6.7
Pounds Sterling	.8	.7	—	—	—	—
	$161.5	$213.3	$ 2.3	$ 3.4	$31.5	$40.9

Included in the guaranteed debt are amounts serviced from the Consolidated Fund which are essentially the same as direct debt. These amounts consist of the following *(in millions of dollars)*:

	March 31 1985	March 31 1984	Increase (Decrease)
Manitoba Properties Inc.	$ 278.2	$ —	$ 278.2
University of Manitoba	13.3	17.5	(4.2)
Various hospitals and other institutions	1.3	1.5	(.2)
	$ 292.8	$ 19.0	$ 273.8

OPERATING FUND ASSETS AND LIABILITIES

Combined Direct and Guaranteed Public Debt

Combined direct and guaranteed public debt, net of sinking funds, other related trust funds and debentures issued under financial assistance agreements, is as follows *(in millions of dollars)*:

	March 31		
	1985	**1984**	**Increase**
Direct	$ 5,471.3	$ 4,966.3	$ 505.0
Guaranteed	1,950.4	1,643.7	306.7
	7,421.7	6,610.0	811.7
Less:			
Sinking funds:			
Direct	660.1	515.5	144.6
Guaranteed	260.0	241.1	18.9
Other related trust funds	81.6	—	81.6
Debentures issued under financial assistance agreements(see particulars under Direct Public Debt)	29.5	29.5	—
	1,031.2	786.1	245.1
	$ 6,390.5	$ 5,823.9	$ 566.6

OPERATING FUND ASSETS AND LIABILITIES

The combined direct and guaranteed debt, net of sinking funds, other related trust funds, and debentures issued under financial assistance agreements, is summarized below by sources of servicing *(in millions of dollars)*:

	March 31		Increase
	1985	1984	(Decrease)
Serviced from			
Consolidated Fund:			
Fully re:			
General purposes	$ 2,740.6	$ 2,392.3	$ 348.3
Manitoba Properties Inc.	200.1	—	200.1
	2,940.7	2,392.3	548.4
Mainly re:			
Manitoba Jobs Fund	35.4	40.4	(5.0)
Manfor Ltd.	36.5	11.2	25.3
Manitoba Beef Stabilization Fund	10.0	10.0	—
Manitoba Mineral Resources Ltd.	8.4	5.6	2.8
Manitoba Hog Income Stabilization Plan	5.0	—	5.0
Manitoba Oil and Gas Corporation	5.0	—	5.0
Other	3.4	3.8	(.4)
	103.7	71.0	32.7
Partially re:			
Manitoba Agricultural Credit Corporation	146.7	160.1	(13.4)
Manitoba Housing and Renewal Corporation	103.4	105.0	(1.6)
Manitoba Jobs Fund re:			
Manitoba Housing and Renewal Corporation	47.3	9.1	38.2
Insulation Loan Program	9.9	5.7	4.2
Emergency Interest Rate Relief Program	9.0	—	9.0
University of Manitoba	7.6	9.7	(2.1)
Manitoba Data Services	6.5	9.2	(2.7)
	330.4	298.8	31.6
	3,374.8	2,762.1	612.7
Other funds:			
Manitoba Hydro-Electric Board	2,493.1	2,527.6	(34.5)
Manitoba Telephone System	494.0	504.9	(10.9)
Manitoba Water Services Board	16.2	16.7	(.5)
Other	12.4	12.6	(.2)
	3,015.7	3,061.8	(46.1)
	$ 6,390.5	$ 5,823.9	$ 566.6

OPERATING FUND ASSETS AND LIABILITIES

Sinking Funds

A summary of sinking funds is as follows *(in millions of dollars)*:

Sinking funds applicable to:

	March 31 1985	1984	Increase
Direct public debt	$ 660.1	$ 515.5	$ 144.6
Guaranteed public debt	260.0	241.1	18.9
Agencies' non-guaranteed debt	4.4	4.1	.3
	$ 924.5	$ 760.7	$ 163.8

Sinking funds were invested as follows:

	March 31 1985	1984	Increase (Decrease)
Internal securities:			
Province of Manitoba	$ 211.2	$ 190.0	$ 21.2
Manitoba Hydro-Electric Board	239.8	241.7	(1.9)
Manitoba Telephone System	45.2	50.6	(5.4)
University of Manitoba	4.6	7.7	(3.1)
	500.8	490.0	10.8
Other securities	207.5	114.3	93.2
Short-term investments	216.2	156.4	59.8
	$ 924.5	$ 760.7	$ 163.8

The sinking funds are maintained in accordance with legal requirements. They are basically being maintained by way of borrowing to provide funds for clearing the market of Manitoba securities, thereby placing the Province in a stronger marketing position. Manitoba securities are being purchased before maturity by the Department of Finance at prices approved by the Deputy Minister of Finance. The short-term investments represent funds being used as working capital by the Province for which the Province's regular rates of interest are applied as earnings for the various sinking funds.

Commitments and Contingent Liabilities

The particulars of the more significant commitments and contingent liabilities are as follows:

Commitments

Commitments for housing:

The Manitoba Housing and Renewal Corporation (M.H.R.C.) is indebted to the Canada Mortgage and Housing Corporation (C.M.H.C.) for $234.0 million as at March 31, 1985 ($236.7 million as at March 31, 1984).

M.H.R.C. enters into long-term financing agreements with C.M.H.C. for public housing projects. The capital funding is on the basis of 10% by the Province and 90% by C.M.H.C. The annual operating costs, including debt servicing costs, less rental recoveries on the housing operations, is shared equally between Canada and Manitoba. Manitoba's share of the public housing program subsidy related to these housing operations amounted to $15.3 million for the year ended March 31, 1985 ($15.2 million for March 31, 1984).

OPERATING FUND ASSETS AND LIABILITIES

Commitments for employee pension benefits:

In accordance with legislation the Province is required to contribute on a matching basis one half of the pensions paid by the Civil Service Superannuation Fund, except for the agencies' portion, and by the Teachers' Retirement Allowances Fund. There are also provisions for adjustment payments. The matching and adjustment payments for the two fiscal years were as follows *(in millions of dollars)*:

	March 31		
	1985	1984	Increase
Civil Service Superannuation Fund	$ 9.5	$ 8.0	$ 1.5
Teachers' Retirement Allowances Fund	16.6	15.5	1.1
	$ 26.1	$ 23.5	$ 2.6

In accordance with a formula supplied by the actuary, the actuarial liability of the Province for the Civil Service Superannuation Fund has been calculated to be $249.7 million as at December 31, 1984 ($213.7 million as at December 31, 1983). There has been no actuarial liability of the Province established for the Teachers' Retirement Allowances Fund, but it can be logically concluded that it would approximate the total of the employees' fund which amounted to $358.7 million as at December 31, 1984 ($315.3 million as at December 31, 1983).

To provide an estimate of the annual cash requirement, the actuary prepared a cash projection for the Civil Service Superannuation Fund for 25 years, commencing with the year 1978 and concluding with the year 2002. Based on a constant membership, the projection indicated the annual employer's pension payments as a percentage of salaries to be 1.5 percent in 1978 and progressively increase to 7.2 percent in 2002. The actuarial projections vary somewhat from the actual experience, but, after taking into account the variable factors, the actual experience appears to reasonably parallel the actuarial projections. The Teachers' Retirement Allowances Fund's percentage of pension payments to total salaries is higher than that of the Civil Service Superannuation Fund because the former plan is older and more mature.

	March 31		
	1985	1984	Increase
The actual payments shown above as a percentage of total salaries are as follows:	%	%	%
Civil Service Superannuation Fund	2.64	2.30	.34
Teachers' Retirement Allowances Fund	3.36	3.25	.11

Amendments to The Pension Benefits Act during 1983, which provided improvements to pensions, substantially increased the pension liabilities for both Funds. We have been informed by the actuary that these changes will cause the annual employer's pension payments to increase considerably above those originally projected over the next few years. In view of these changes, consideration should be given to updating the cash requirement projections previously done by the actuary.

Previously, the Province and its Crown corporations and agencies recognized the employer's portion of pension contributions in their financial statements as cash payments were made on employee retirement or termination. Disclosure of the information regarding actuarial estimates of unfunded pension liabilities was by notes to the financial statements. In recent years, a number of Crown corporations and agencies have adopted accounting policies to recognize pension costs in their accounts as pension benefits are earned. This has given rise to a number of accounting treatments. In addition, there are inconsistencies regarding the funding of these liabilities. In view of the variety of accounting policies and funding bases developed regarding this matter, we recommend that a review be completed and guidelines developed and communicated to the various corporations and agencies.

OPERATING FUND ASSETS AND LIABILITIES

Commitments for financing of hospitals and personal care homes:

Hospitals and personal care homes have obtained financing for capital construction by issuing debentures, or arranging for mortgages or long-term bank loans. The Hospital Capital Financing Authority, which was established in 1972, approves the issue of all securities to finance these capital expenditures and assists in obtaining an orderly market for the sale of the securities. The Manitoba Health Services Commission has arranged with hospitals and personal care homes to fund the approved debt as long as the facilities are operated under The Health Services Insurance Act (Manitoba). Funds for servicing the approved debt are provided from an appropriation of the Consolidated Fund and included in the expenditure of the Manitoba Health Services Commission.

As at March 31, 1985 the approved outstanding net capital debt of hospitals and personal care homes was $297.3 million (1984 - $239.4 million), being $286.1 million in Canadian dollars and $11.2 million in United States dollars. This includes $18.6 million in National Housing Act mortgages which are subsidized by the Canada Mortgage and Housing Corporation.

In addition to the above net outstanding debt, lines of credit up to $55.7 million have been approved to finance projects currently in process. On completion of these projects, the borrowings will be converted to long-term debt.

Contingent liabilities in addition to guaranteed debt

Flyer Industries Limited

This Corporation has been required to provide performance bonds to guarantee the completion of its contracts. The Province has undertaken to indemnify the bonding companies to the extent of $53 million as at March 31, 1985. This indemnity has been provided for by way of an encumbrance of The Manitoba Development Corporation's borrowing authority of $40 million under Part II of The Development Corporation Act and a provision of $13 million under section 54.1 of The Financial Administration Act. This Corporation has also been provided with a $30.5 million bank line of credit. This was provided by way of an encumbrance of the Manitoba Development Corporation's borrowing authority of $20.5 million and a provision of $10 million under section 54.2 of The Financial Administration Act.

Manitoba Hydro-Electric Board

Subject to the approval of the Lieutenant Governor in Council, the Board may borrow or raise money for temporary purposes with the present limit being $150 million. There were $110 million U.S. and $2 million Canadian for a total of $112 million of Manitoba Hydro-Electric Board promissory notes outstanding and guaranteed by the Province as at March 31, 1985. Section 35 of The Manitoba Hydro Act provides for the raising of United States and Canadian dollars at par. The United States dollars, converted to Canadian dollars at the March 31, 1985 exchange rate, amount to $150.4 million for a total of $152.4 outstanding in Canadian dollars as at March 31, 1985.

Commitments for future services

The Financial Administration Act permits commitments to be made only to the extent authorized by the Legislature. The Appropriation Act, 1984 granted authority to the Government to commit expenditures not to exceed $220 million. The commitments for significant contracts and lease rentals of $157.3 million as at March 31, 1985 in the Public Accounts is understated by $117.7 million as explained in the following paragraph. The actual commitments of $275 million as at March 31, 1985 exceed the authorized commitment authority of $220 million by $55 million.

The Province entered into a long-term lease-back agreement for the fixed assets it sold to Manitoba Properties Inc. The initial five year lease arrangement from August 1, 1984 to July 31, 1989 requires annual rental payments of $35.3 million aggregating to $176.5 million. The above commitments of $157.3 million include $35.3 million for the 1985-86 rental commitment. The balance of the Manitoba Properties Inc. lease commitment of $117.7 million for the period April 1, 1986 to July 31, 1989 and the above-noted commitments of $157.3 million aggregate to $275 million. The Department of Finance is aware of this problem and is taking steps to resolve it.

OPERATING FUND ASSETS AND LIABILITIES

Borrowing authority

The following is a summary of the outstanding borrowing authority *(in millions of dollars):*

	March 31 1985	March 31 1984	Increase (Decrease)
Appropriation Acts - to cover government operations and sinking fund provisions	$ 206.4	$ 393.5	$(187.1)
Loan Acts - self-sustaining programs	605.4	414.2	191.2
Total unabated authority	811.8	807.7	4.1
Encumbered authority -			
Manitoba Development Corporation re Flyer Industries Limited	60.5	50.0	10.5
Manitoba Jobs Fund re Gravure Graphics Ltd.	1.2	—	1.2
	61.7	50.0	11.7
	$ 750.1	$ 757.7	$ (7.6)

More detailed information concerning the borrowing authority is included in the Public Accounts.

TRUST FUND ASSETS AND LIABILITIES

Administered Trust Funds

Administered trust funds consist of the following *(in millions of dollars)*:

	March 31 1985	March 31 1984	Increase (Decrease)
Assets			
Amounts due from Operating Fund	$ 525.8	$ 469.7	$ 56.1
Cash and investments	541.7	476.3	65.4
	$ 1,067.5	$ 946.0	$ 121.5
Liabilities			
Sinking funds for securities issued by government agencies	$ 264.4	$ 245.2	$ 19.2
Funds deposited with the Minister of Finance for investment	705.7	602.8	102.9
Banking facility accounts	13.1	13.9	(.8)
Operating trusts	8.2	7.1	1.1
Miscellaneous trust accounts	76.1	77.0	(.9)
	$ 1,067.5	$ 946.0	$ 121.5

The trust transactions for each account are summarized in the Public Accounts in a statement which shows for each account: the balance as at March 31, 1984; the receipts, payments and transfers for the year ended March 31, 1985; and the balance as at March 31, 1985.

The increase in the above-noted liabilities arises from normal growth and fluctuations, except for the funds deposited with the Minister of Finance for investment. The increased funds deposited with the Minister of Finance include $78.1 million from Manitoba Properties Inc., which is commented on under the Manitoba Properties Inc. heading in the Operating Fund Assets and Liabilities section of this report. The increase also includes $12.5 million for the Manitoba Lotteries Foundation which had its investment funds on deposit in a bank account outside of the central system in the previous year.

TRUST FUND ASSETS AND LIABILITIES

Custodial Trust Funds

Custodial trust funds consist of the following *(in millions of dollars)*:

	March 31		Increase
	1985	1984	(Decrease)
Assets			
Funds in custody of the Minister of Finance and other departments	$ 458.0	$ 429.0	$ 29.0
Liabilities			
Civil Service Superannuation Fund	$ 263.7	$ 239.7	$ 24.0
Workers Compensation Board	119.0	122.8	(3.8)
The Public Trustee	61.3	55.3	6.0
Manitoba Hospital Capital Financing Authority	5.0	4.6	.4
Other	9.0	6.6	2.4
	$ 458.0	$ 429.0	$ 29.0

The net increase in the above-noted custodial liabilities mainly arises from normal growth.

REVENUE AND EXPENDITURE

General Comments

The accounting policies with regard to the presentation of revenue and expenditure for the year ended March 31, 1985 are stated in the Public Accounts, and are reproduced in Exhibit 12 of this report.

A summary of revenue and expenditure is included in the Public Accounts and is reproduced in Exhibit 9 of this report. The statement compares the actual revenue and expenditure for the year ended March 31, 1985 with the Estimates for that year, and with the actual amounts for the preceding year.

Clarification of Operating Results

In our report for the previous two years we recommended that losses of Crown agencies be subsidized from funds voted in an appropriation, and not from advances as is the current practice. We believe that this should be done so that funding of the operations which created the losses would appropriately compete up-front with the funding for other programs. No action has been taken on our recommendation. Providing advances in situations where Crown agencies have a history of operating losses is unrealistic, unless effective action has been taken so that it is reasonable to expect the operations will result in surpluses in the short term to enable repayment of the advances. Providing advances to Crown agencies with a history of losses can result in the Province's operating results as reflected in its financial statements being misinterpreted. This misinterpretation can occur even though allowances against the advances are being provided in the accounts. The allowances, although included in the Excess of Liabilities over Assets statement, are not funded from an appropriation, and consequently are not included in the Summary of Revenue and Expenditure statement. We again recommend that losses on Crown agency operations be funded from funds voted in the appropriations, so that the funding of losses would appropriately compete with the funding of other programs. As a less satisfactory alternative, the losses of Crown agencies for the current year could be disclosed in the statement of Summary of Revenue and Expenditure of the current year. This disclosure should be supported by orders-in-council recognizing the expenditure. If this had been done, the results for the fiscal year ended March 31, 1985, with comparative figures for the preceding year, would be as follows *(in millions of dollars)*:

	March 31	
	1985	1984
Excess of expenditure over revenue, before allowance	$ 482.5	$ 428.9
Allowance for losses realized by Crown corporations	42.0	48.0
Excess of expenditure over revenue, including the allowance	$ 524.5	$ 476.9

Details of the above-noted allowance are provided under the Excess of Liabilities over Recorded Assets section in this report.

The subtotal on the statement of Summary of Revenue and Expenditure for the fiscal year ended March 31, 1985 stated as Excess of Expenditure over Revenue of $482,533,775 ($428,949,282 for 1984) reflects the excess of expenditure over revenue in accordance with the Government's stated accounting policies. It is this figure which is reflected in the Excess of Liabilities over Recorded Assets statement to establish the changes in the Operating Fund Assets and Liabilities from one year to the next. The total expenditures related to capital assets, as shown on the Summary of Revenue and Expenditure statement, is useful information and is helpful in gaining an appreciation of the extent of expenditures made to acquire or construct capital assets or as capital transfer payments. However, while important, this is only one aspect of the capital transaction cycle. We believe this information would be better presented on a supporting schedule together with other relevant aspects of capital expenditure information. This information could include an analysis of significant assets acquired or constructed, and capital transfer payments made during the year and in prior years by type; an analysis of physical assets acquired, classified as to whether they are primarily used for purposes of the public or for purposes of government administration; an analysis of maintenance expenditure in the past year and previous year by type of asset; and an estimate of the remaining useful life of the assets acquired. Such information would be useful in helping a reader obtain a fuller understanding of how the expenditure related to capital assets affects the Province's operations.

The Manitoba Development Corporation has continued to subsidize expenditure of the Communities Economic Development Fund. The subsidy for the year ended March 31, 1985 amounted to $.8 million, which was the same amount as the subsidy for the previous year. This subsidy should be provided from

the Province's appropriations and included in the Summary of Revenues and Expenditures in Public Accounts.

During the current year, the Province raised part of its financing requirements through Manitoba Properties Inc. As a result of this arrangement, the Province's expenditure for Field Services in the Department of Government Services, which includes rental accommodations, was increased by $23.5 million for rent paid by the Province to Manitoba Properties Inc. As well, public debt expense in the Department of Finance was decreased by $11.2 million, reflecting interest received on a note payable to the Province by Manitoba Properties Inc. for the fiscal year ended March 31, 1985. These transactions covered the period from August 1, 1984 to March 31, 1985, since the sale and lease-back arrangement were effective on August 1, 1984. The Province's accounts, as explained under the heading Manitoba Properties Inc. in the Operating Fund Assets and Liabilities section of this report have not been consolidated with those of its controlled corporations involved in this arrangement. As explained under the Manitoba Properties Inc. heading earlier, if the Province's financial statements had been consolidated with those of its controlled corporations involved in this arrangement, the operating results would be changed. There would be an increase in the Excess of Expenditure over Revenue of $7.2 million, being $5.4 million for issuance and administrative costs and $1.8 million representing the difference between the dividends paid by Manitoba Properties Inc. and the net costs reflected in the Public Accounts in the Summary of Revenue and Expenditure. We recommend that a consolidation basis be adopted to disclose the full effect of financing costs related to these transactions, and eliminate the fragmentation of this information which results under the current basis.

Duplication of Interest Expense

For the past several years we have been reporting that the Department of Finance has been paying interest from its appropriation to the Manitoba Development Corporation on the Corporation's excess funds on deposit. These excess funds resulted from equity financing of the Corporation from the Province, for which the Province incurs financing expenditure in its appropriation. This results in a duplication of interest expenditure by the Province. Last year we indicated that the situation appeared to be resolved because these funds were being used to finance the deficits of Flyer Industries Ltd. We reported that from March 31, 1984 to September 30, 1984 $6.8 million had been paid to Flyer Industries Ltd., and that a further substantial amount had been committed. This situation has only been partially resolved during the current year, as the amount on deposit has been reduced from $17.3 million as at March 31, 1984 to $11.0 million as at March 31, 1985. The interest paid for the year ended March 31, 1985 amounted to $1.1 million ($1.6 million for the fiscal year ended March 31, 1984).

Since this duplication of interest payment situation is continuing, we again recommend that the Department of Finance reassess its position on the payment of interest to the Manitoba Development Corporation.

Variance Explanations

The Department of Finance provides explanations in the Public Accounts for significant revenue variances with the Estimates and with the previous year's figures. We have reviewed these variance explanations and found them to be appropriate. However, for expenditure, explanations are provided only for variances with the previous year's figures. It would be useful information for legislators and internal control purposes to have explanations provided for significant expenditure variances from the Estimates because these amounts form the basis for departmental operating plans. Expenditure variance material is in the process of being included in departmental annual reports and when this is accomplished it is expected that it will be discontinued in Public Accounts. A comparative statement of departmental expenditure by object code, with variance explanations, is also provided in Public Accounts. The Province implemented a new nine-category expenditure object code in 1984-85, with which we agree. The 1983-84 expenditures have been reclassified into these categories for comparative purposes.

SPECIAL WARRANTS

Special warrants are issued under the authority of section 42(1) of The Financial Administration Act to approve expenditure not foreseen or provided for, or insufficiently provided for, and is urgently and immediately required for the public good. We review the documents supporting requests for special warrants to see that they are in compliance with legislation.

A summary of the special warrants issued by departments on a comparative basis for the 1985 and 1984 fiscal years is included in Exhibit 6 of this report. The total special warrants issued for the year ended March 31, 1985 amounted to $82.1 million. The larger of the special warrants consisted of:

- the Department of Government Services, $24 million, to provide for rental payments on property sold to Manitoba Properties Inc. and leased back;
- the Department of Agriculture, $6 million, to provide for the one-time write-down of interest rates on loans under the Manitoba Agricultural Credit Corporation regular loan program to 8% for 1984-85 under a new interest rate reduction program;
- the Department of Employment Services and Economic Security, $11.0 million, to cover underestimated social allowance expenditures resulting from the continuation of adverse economic conditions;
- the Department of Finance, $5.5 million, to cover additional cost of living tax credits and property tax credits;
- the Department of Health, $12.7 million, to provide additional funding for Manitoba Health Services Commission expenditures relating to its hospital, medical, pharmacare and other programs;
- the Department of Natural Resources, $4.5 million, to augment fire suppression activities.

As indicated above, the 1985 special warrants total of $82.1 million includes a warrant for $24 million to provide for rental payments for certain government buildings, resulting from the sale and a lease agreement between Manitoba Properties Inc. and the Province. This situation is commented on in more detail under the Manitoba Properties Inc. heading in the Operating Fund Assets and Liabilities section of this report. The total special warrants issued for the year ended March 31, 1984 amounted to $104.3 million, which included a warrant for $67 million re Public Schools Support to authorize an acceleration of cash flow to school divisions. This warrant was required due to a change in accounting policy which allowed for the expenditures of school divisions incurred in the period January to March to be recorded in the fiscal year they were made, rather than to be deferred to the following fiscal year. We were in full agreement with the $67 million adjustment.

The total actual expenditure of $3,407.2 million for the year ended March 31, 1985 was $26.6 million less than the total approved by legislation under the Main Supply and Statutory Authority, exclusive of the amount approved by special warrants.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

General Comments

The responsibility for the Government's central management system is assigned to the Treasury Board, the Department of Finance and the Civil Service Commission. During the last year the Department of Finance reassumed responsibility for the old Information Management Division which, as reported last year, had been previously transferred to the Department of Industry, Trade and Technology. Treasury Board has approved the Department of Finance's organization of the Information Systems Support Branch to discharge these responsibilities.

In previous reports we provided an outline of the steps being taken to strengthen the management processes and practices being used. These steps included the adoption of a policy of management by objectives and results, and the issuance of policy and guideline material pertaining to management processes. Of the five functions of the management cycle: planning, organizing, staffing, directing and controlling, emphasis was initially given to the planning function. We considered this to be an appropriate course of action because we believed this function essential to each of the other functions. Developments in these important aspects of management have been carefully planned and geared to be implemented at a pace which will not disrupt other important responsibilities of management. Training sessions and workshops have been made available pertaining to aspects of the planning function and the problem-solving, decision-making processes.

Development of the central management system and the supportive departmental systems need to be directly related and part of a modular process. In this regard, both Treasury Board and the Department of Finance appreciate that improvements in the overall resource allocation process are dependent upon improvements in departmental management information and the processes which provide it. It has also been appreciated that improvements in the central system should complement departmental developments. Accordingly, the Government's resource allocation requirements have been adjusted to build upon improved departmental planning capabilities.

The development and implementation of appropriate policy and guideline material to substantially improve the management function in an organization as large as the Provincial Government is a very significant undertaking. It is reasonable to expect that it will take many years to successfuly accomplish this undertaking. The efforts of the early years have rightly been concentrated on the planning function. In the past year information was supplied to management personnel to communicate and clarify the roles and responsibilities of the various participants in the financial management process throughout the government. The material served to underline the responsibilities of senior departmental financial personnel, provided linkage between those responsibilities and the responsibilities of senior Department of Finance officials, and clarified the overall relationships with Treasury Board. We considered this particularly helpful in assisting departmental managers put their position and its responsibilities into better perspective. This material also assisted government personnel at all levels to better understand the Government's accountability structure. Guidelines for the development of internal departmental management information reporting were also issued. Progress towards improving departmental and central decision-making information and its necessary options has been good. These improvements have been possible because these initiatives have received a continued commitment and high priority by Government. However, while fully recognizing the progress to date, we consider it fair to indicate that a great deal remains to be done. Although some important aspects of the planning function have been addressed, other significant aspects of that function still need to be addressed, as do the other major functions of the management process: organizing, staffing, directing and controlling. It is only when these functions have all been substantially addressed and are extensively used at all levels of management that the management process will be as efficient and responsive to changes as can be expected. We strongly recommend that management policy development be continued so that all of the essential aspects are covered and promulgated to departments as soon as practicable.

Department of Finance

In previous years comments were made on a number of functions of the management system. These comments pertained to the management process, and to the reporting documents. Comments previously included under this heading which relate to the management process covered by policy and guidelines applicable to all departments are now reported under the Government-Wide Reviews section of this report. The other matters are updated with the following comments.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

Annual Budget

In recent years, the general public in Canada has become much more aware of the extent of deficit financing by governments, and the possible consequences of the mounting accumulation of public debt. Accordingly, last year we recommended the Government give consideration to establishing a formal system for "up-front" evaluation of the financial position and economic strength of the Province. We also commented that the confidence of the public in the Government would be enhanced by the Government providing reasonably documented, systematic assurance that decisions being taken with respect to the extent of current and planned deficit financing are not extending the Province beyond manageable financial limits. The "up-front" evaluation and the documented assurance concerning financing could both be accomplished in some measure through the development and distribution of the recommended long-range fiscal plans. We believe that if long-range plans were made available to the Legislature, they would serve as an effective basis for the annual review of the budget and Estimates. It would also assist other sectors of the economy to coordinate their plans with the Government's longer-term objectives to the benefit of the general economy.

The matter of the availability and accuracy of information to develop a multi-year fiscal plan was discussed at some length during the most recent meeting of the Public Accounts Committee. The Committee was advised that such information was available to Cabinet, and the difficulties of establishing accurate longer term projections were discussed. Concerns were expressed that problems might be encountered through the release of information which could later be subject to considerable change as a result of factors beyond the Government's control. The advantages to legislators in having such long-range forecasts were considered to outweigh the disadvantages of possible inaccuracies in the longer term forecasts by certain members of the Committee.

We appreciate that long-term forecasting of future economic conditions is not easy, and that projections can change as a result of conditions beyond the control of the Government. However, we believe that the availability of this kind of information would be of considerable assistance to legislators for reviewing the budget and Estimates. This information would also assist individual departments, and the Government as a whole, in continuing their efforts towards clarification of program priorities and longer term objectives. As well, such longer-range forecasts would emphasize the reality of the continuing need for improved management practices and forecasting techniques.

Therefore, we again recommend that the Province establish the requirement for the distribution of a multi-year financial plan. This should be developed and implemented on a progressive basis. We recommend that initially the plan should include the year currently being budgeted for, and the ensuing year. Over time, this should be extended by an additional year.

Legislative Expenditure Estimates

Last year we expressed a concern about the possible lack of legislative control over certain job creating expenditures approved in a separate appropriation designated "Jobs Fund". This appropriation was presented distinct from the departments responsible for program delivery, and with no program particulars. We also commented that this approval of expenditures on a government-wide approach could complicate the understanding of program delivery, and also impair the Legislature's ability to fix departmental responsibility for programs. We recommended that appropriate modifications be made to attend to these concerns.

Our recommendation has not been fully adopted. For the 1985-86 year funds were again approved in a separate appropriation designated "Jobs Fund", although some additional information has been provided. The Legislative Estimates material provides an allocation of expenditures approved amongst three major sectors: Economic Development; Housing, Urban Development and Human Resources; and Community and Capital Assets. However, the Legislative Estimates still do not detail the programs planned, or the departments to be responsible for program delivery. We reviewed internal documentation maintained for the Economic Resource Investment Committee and the Jobs Fund Committee. This documentation disclosed that funds in the Estimates are specifically targeted for various projects expected to be under the Jobs Fund in the current year, however, we understand that the funds are not guaranteed for these projects. We have been advised that this approach has been used because of the need for flexibility. In addition to the allocation of funds to the three major sectors which are reflected in the Legislative Estimates, the internal documents display the allocation of planned Jobs Fund expenditures

amongst the programs planned within these sectors and identify the departments through which the programs are to be delivered.

We appreciate that there is a need for flexibility in this program because of changing needs. However, to improve legislative information and control, we recommend that an Estimates Supplement Document be prepared for the Jobs Fund appropriation similar to that being phased in as a requirement for each of the operating departments.

Manuals, Directives and Guidelines

Last year we reported that a considerable amount of information had been developed by the Department of Finance concerning the Government's management philosophy and management systems. We reported that making this material generally available could assist in the overall management development process, and recommended that this material be consolidated for distribution. The form of the consolidation can make a difference in how readily it could be reviewed and used by all levels of management and those aspiring to management positions. We also reported that the Comptroller, Department of Finance, had agreed to establish an inventory of the costing systems maintained by departments, with the view to developing appropriate guidelines for departments.

We are pleased to report that action is in process of being taken by the Department of Finance to consolidate and distribute the material developed concerning the Government's management philosophy and management systems. The Department of Finance also issued information to all departments to communicate and clarify the roles and responsibilities of those involved in the financial management process throughout the Government. In the past year, the Comptroller's staff carried out a survey of departments and established an inventory of departmental financial systems, including departmental costing systems. Once the survey was completed, the Comptroller provided all departmental executive financial officers with a summary of the overall findings, a catalogue of departmental financial systems, and guidelines for departmental financial systems. We consider that the dissemination of this information to all departments serves a very useful purpose in that it keeps departments up-to-date with across-government developments. It also enables departments contemplating system changes to communicate with other departments who have already made such changes.

We conducted a survey of certain departments with inventory costing systems where items are purchased for resale, and where items are initially charged to one appropriation and subsequently charged to other appropriations. Our survey disclosed that where inventory costing systems are in operation, the systems are generally operating in a satisfactory and effective manner.

Information Systems Support Branch

In our report for the last several years, we have indicated concern over the lack of progress in the development and communication of a government-wide strategic plan in the information systems area. We consider this to be essential so that the ongoing computerization of the workplace in the Manitoba Government can take place within a policy framework that promotes long-term effective and controlled utilization of information processing technology. One specific policy area we have expressed concern with in the past is the lack of a plan to enable the Province to keep essential systems operating if the Province's main computer facility were to become inoperative, that is, a computer processing disaster recovery plan. Further impetus has more recently been given to our concerns by the rapidly increasing use of microcomputer technology within the Manitoba Government. This situation poses both great opportunities for the effective administration of government systems and great risks.

With respect to the strategic plan for use of information processing technology, including the computer disaster recovery plan, we expressed concern last year that the unit responsible for its development, formerly Information Management Division of the Department of Industry, Trade and Technology was not staffed or organized to address this mandate effectively.

This responsibility and staff have now been transferred to the Department of Finance and Treasury Board has confirmed its emphasis on government-wide policy direction and coordination for information systems. This unit, which is now called the Information Systems Support Branch, has been actively establishing its role in relation to existing priorities and seeking input from the data processing community to assist it in developing more specific objectives under the broad mandate given it by Treasury Board. We encourage them in this work and hope to be able to report significant progress in this important area in next year's report.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

Civil Service Commission

Managerial Resources

In previous reports, we indicated that with the approval of Treasury Board, the Commission was developing a comprehensive managerial resources management plan. The key aspects of such a plan include:

- Development of a model of the required management skills
- Identification of government-wide needs
- Training
- Performance management

We further indicated that an equitable classification and compensation package was an essential part of this plan.

Before the training and development of managers can proceed effectively, there needs to be a management skills requirement framework established. Such a framework would identify the skills required by effective managers within the Manitoba Civil Service. The Department of Finance has been charged with the responsibility for developing management policy, processes and guidelines, while a part of the Commission's mandate is to provide the training necessary to implement policy. Considerable progress has been made in policy and guideline development by the Department of Finance as noted in the Government's Central Management System section of this report under the heading Department of Finance, Planning. Nonetheless, a great deal more is required before a complete set of management skill expectations for Manitoba Civil Service managers will be in place. We recommend that the development of such a skills model be assigned to a task force consisting of senior members from the Civil Service Commission, the Department of Finance, and the Premier's Office.

Once the management skill requirement framework has been developed, a logical step will be to compare the skills of current managers to the framework. This is required in order to design a comprehensive development and training program which will address the broadly based needs of current and future managers in the government. The necessity of hiring senior managers from outside the Civil Service is an indicator that the management skills of current managers, and the overall managerial resources management plan, require enhancement. In our view, most government managers have been functioning reasonably well under previous expectations, but we believe that further development and improvement of their skills is required to meet increased expectations of managers at all levels. The difficult economic conditions have made it necessary that all levels of staff accomplish more with less. This has resulted in increased emphasis on better management systems and processes and, of course, management skills. Improvements in these areas will work to the long-term benefit of the people of Manitoba.

With respect to training, the Civil Service Commission has successfully sponsored a number of useful programs related to management skills. Our concern is that without a framework to work within, these programs tend to be ad hoc and uncoordinated, so that it is not clear as to the extent to which long-term objectives are being met. For this reason, we encourage greater coordination with staff of the Comptroller's Division, Department of Finance, who have a responsibility for improving the management systems and processes. We further encourage the Commission to promote the formation of the task force recommended earlier so that a long-term management training program consistent with the Government's management framework can be developed.

Performance management is another key aspect of the managerial resources management plan we will be dealing with in this report. When the Commission first undertook to develop a computerized personnel information system some years ago, one of its main elements was the maintenance of a government-wide management skills inventory. This has subsequently been determined to be impractical on the scale originally intended. We believe, however, that within a departmental perspective it is essential for senior managers to have a record of the skills of the managers working in their department, an identified career path, an on-the-job development program, and a formal training program that can address each manager's and potential manager's individual needs. In our view, such a develo ental program would be of significant assistance to the advancement of the Affirmative Action Program. The Commission could play a meaningful role in assisting departments in this area.

Performance appraisals are widely recognized as an important part of the process in determining developmental needs of managers and employees. We are disappointed that the Commission, after several years, still has not issued guidelines for performance appraisals to departments. We encourage them to do so in the

near future. Furthermore, we encourage the Commission to begin working with departmental management to assist them in setting up an effective process for identifying, training and developing individuals with potential to become high calibre managers.

We have been advised by officials of the Commission that there are other priorities considered higher than that of developing a comprehensive managerial resources management plan. Accordingly, the resources they have available to proceed quickly in this area are limited. We believe that the establishment of the task force referred to earlier would assist in the effective allocation of resources to address this essential need.

With respect to management classification and compensation programs, we noted last year that a committee of senior officials had been formed to address certain of the identified disparities. This committee subsequently recommended the establishment of a new pay range for the most senior deputy ministers and a number of adjustments in the classification of certain senior positions. We are pleased that this has resulted in removing some of the salary inequities previously noted. However, other concerns remain unresolved. In our view this may still act as a disincentive which could discourage employees from developing their managerial skills, from working to attain more senior positions, and may work to the detriment of the managerial development plans discussed above. Furthermore, we are concerned with the significant variance in pay between senior managers within the Civil Service and managers in Crown agencies and a lack of a central coordinating office in Government to ensure that the present variances do not increase. This aspect of our concern is further addressed in this report in the section entitled Review of Government Control over Compensation by Crown Agencies.

We firmly believe in the principle of fair compensation practices, and are pleased that the scope of the Commission's responsibilities has now been expanded to consider this more fully. Officials of the Commission have indicated that they considered that The Civil Service Commission Act limited them to ensuring "equal pay for equal work", and that passage of The Pay Equity Act was necessary to broaden their mandate to include "equal pay for work of equal value". We are pleased that a Pay Equity Commissioner has been appointed to work toward resolving possible inequities that may have developed as a result of the limitation in scope of the Commission's previous mandate, specifically, those involving female-dominated positions. We recommend that the Pay Equity Commissioner work closely with other areas of specialization within the Commission so that the Commission's current classification and pay determination procedures may be altered with a view to removing inequities that may be present in these and other positions which are not female-dominated. We trust that this would include consideration of the management classification and pay determination procedures as well.

The process of improving internal fairness of compensation will require documentation to be available which will explain the rationale for assigning differing values to differing types of work, and which also will explain the rationale for any significant differences in compensation levels. This is important to demonstrate the efficient and effective allocation of public resources in the acquisition of employee services.

In general, while the Commission has made considerable progress in certain areas, we are disappointed that more progress has not been made in developing a comprehensive managerial resources management plan in the years since we have been commenting on this issue. We recommend that the Commission give consideration to reviewing the priorities set for its objectives so that the development of the required comprehensive managerial resources management plan is undertaken and completed as expeditiously as practicable.

Personnel System

Last year we reported a number of critical system problems reduced the utility of reports generated by the personnel system. We also reported that steps were being taken to resolve those problems by March 1986. A structured plan has been developed with identifiable time frames. The Commission appears to be on schedule and should have these problems resolved by early 1986.

Conflict of Interest

Last year we recommended that the guidelines be expanded to assist officials with their decisions concerning possible conflicts of interest or perceived conflicts of interest. Guidance is required for such matters as whether or not a civil servant operating a business qualifies for government assistance grants and the position to be taken concerning other dealings with

government, and what is the position in these matters of a spouse or dependent children of a civil servant. The Commission has made considerable progress in assisting Government departments and Crown agencies to develop their policies and procedures in this area.

While the Commission has informally communicated its advice to departments, we recommend that they now formally communicate with departments to encourage consistency and the development of equitable conflict of interest practices within departments.

REVIEW OF GOVERNMENT CONTROL OVER COMPENSATION BY CROWN AGENCIES

In our previous reports we made reference to matters pertaining to managerial classification and compensation. This is also discussed in our current report in the Government's Central Management System section under the heading Civil Service Commission - Managerial Resources. Last year, we reported that since January 1983 the Government has had procedures in place to approve proposed public sector collective bargaining settlements in advance. We believe that this is an effective process for maintaining equity in compensation levels for staff remunerated from public funds. As part of our broader audit scope work, we carry out a comparison of staff compensation programs in the various Crown agencies with those of the Civil Service. Our review of the compensation levels of senior executives, and other managers excluded from the bargaining process, disclosed significant variations among Crown agencies and between the Civil Service and Crown agencies. The reasons for these variations were not readily apparent. We recognize that there may be a need for such variations in comparative levels, but we have determined that there is no formal system in place to provide a rationale for them. We have also determined that there is no Government administrative system in place to monitor and approve the salaries and benefits of senior executives and other managers of Crown agencies who are excluded from the bargaining process.

We recommend that a system similar to that used for the advance approval of collective bargaining settlements be established to monitor and approve salaries, bonuses and benefits of senior executives and other managers excluded from the bargaining process in Crown agencies. This system should include documentation of the rationale supporting all significant variations in comparative levels and should be administered by an individual or organization delegated by Government.

GOVERNMENT-WIDE REVIEWS

General Comments

Previously we reported that directives and guidelines had been provided by Treasury Board to departments concerning the Government's management philosophy and processes. We commented that departmental management would be working towards adopting the expected standards as soon as practicable, and that we would be monitoring the progress made. Last year we carried out government-wide reviews of the following four areas: the planning process, the expenditure estimates process, departmental annual reports, and the internal audit function. During the year ended March 31, 1985 we again monitored departmental progress in these areas, and the following comments provide an update of progress made.

Planning

Last year we reported that reasonable progress was being made by departments in implementing the planning guidelines approved by Treasury Board. During the year ended March 31, 1985 the Chairman of Treasury Board wrote to departmental officials requesting that they consider their experience to date with the planning guidelines and other requirements of the Estimates process. Suggestions for change or refinement to the process were requested and later discussed at a meeting with senior departmental officials arranged by the Chairman of Treasury Board. This process was objective, and further emphasized the importance of strengthening the linkage between the departmental planning process and the resource allocation process. The review of progress made in this area also emphasized the need for more direct ministerial and departmental input into the early stages of the Government's priority setting process. The Government also recently issued a policy directive concerning departmental management reporting guidelines. This is an important aspect of the overall management information system. It should play a significant part in improving departmental and central government decision-making information.

One of the requirements for departmental planning is the development of a multi-year plan covering a three to five year period. This longer term planning is extremely helpful in that it requires departmental personnel to better appreciate longer term strategies and priorities. These longer range plans also help in establishing longer term overall Government funding requirements and strategies. In an earlier part of our report, under the heading Annual Budget, we recommended that a multi-year plan be made available to the Legislature as an effective base for the annual review of the budget and the Estimates. We believe that the distribution of this material would also be useful to departmental personnel. It would accentuate the importance of longer term departmental planning, and assist with longer term priority setting in the departments. In our view, it would also facilitate greater ministerial and departmental input into the early stages of the Government's priority setting. We consider this to be an extremely important aspect of the planning process because, if carried out effectively, it would minimize the necessity for across the Government percentage decreases in program expenditures.

Our departmental monitoring indicated continued progress by departments in implementing the planning guidelines approved by Treasury Board. We can already see significant benefits from the improvements in the departmental planning processes. Departmental communications and reporting processes are improving. As well as having improved financial information, departments are starting to request their Branch Directors to report on the results accomplished as compared to the objectives established through the planning process, with explanations for significant variances. The officials are also being asked to comment on the performance indicators adopted for the prior year, with the expectation that refinements can be made for the future. This type of reporting and communication can be very useful in moving towards greater departmental effectiveness and the more efficient use of scarce resources. The one area which we believe generally requires more effort is the development of departmental multi-year plans. We recommend that this area be given further emphasis.

Departmental Expenditure Estimates

Last year we reported that certain result expectations (output data) were being provided in the expenditure estimates, but that there was still considerable room for improvement. We believed that improvements in the output data would assist with management accountability, and encourage improvements in operational economy, efficiency and effectiveness. As a separate issue, we also reported that significant benefits could be realized if departments submitted supplementary information data in Estimates Supplements to the Committee of Supply prior to their Estimates being considered. We have reported that the benefits of such

advance submissions would be twofold: firstly, better information would enable Members to be more efficient by taking less time in questioning to get information; secondly, legislators could do a more effective job during the Estimates review as a result of having additional information on a timely basis which would enable them to develop a fuller understanding of departmental operations.

We are pleased with the progress being made in addressing our concern relating to improving output data information. Treasury Board recently approved a departmental management policy on management reporting which builds upon the guidelines previously issued for the planning process. This policy on management reporting places high emphasis on results orientation, stressing that departments should implement effective internal monitoring and reporting systems that will track and compare results with planned objectives. Difficult resource allocation decisions need to be made not only on the basis of departmental financial plans, but also on the basis of an evaluation of results. We appreciate that the implementation of these guidelines will take time, but once implemented the information developed from them should assist both departmental management and Treasury Board in making resource allocation decisions. Progress in the Estimates and overall resource allocation process can only be assured by the continued improvement of departmental management information systems. It is important for all departmental managers at all levels to be more involved in the Estimates preparation and resource allocation as part of the management development process leading towards a better understanding of managerial responsibilities.

We did note some examples of ineffective management information systems this year. We noted that two departments experienced difficulty with the preparation of their expenditure estimates. The Department of Business Development and Tourism and the Department of Industry, Trade and Technology have not submitted satisfactory expenditure estimates data for both 1984-85 and 1985-86. This necessitated Treasury Board support staff in the Department of Finance having to spend considerably more time pulling together sufficient information to enable the Estimates review process to proceed. It also left departmental management and staff, Treasury Board analysts, and our audit staff without the level of information considered appropriate to discharge their responsibilities effectively. These departments appreciate that this situation cannot continue. They are presently reviewing their administrative operations to determine the appropriate corrective actions required to be taken to ensure that satisfactory expenditure estimates can be prepared in the future. We also noted that the Department of Employment Services and Economic Security and the Department of Culture, Heritage and Recreation incurred expenditures in excess of their spending authority by $3.9 million and $.5 million, respectively. The payment of these expenditures was made from the 1985-86 spending authority and is reflected in the Late Accounts statement in Public Accounts. Senior officials of these departments have taken action to correct this unsatisfactory situation and in future will request additional spending authority as required. This matter is under review by the Department of Finance Treasury Board support staff with a view to providing additional guidance to departments.

Our concern about the lack of supplementary information being provided to the Committee of Supply for Estimates review purposes has been addressed. We are pleased that Treasury Board has approved a government-wide policy and guidelines which make Estimates Supplement documents mandatory for all departments. The Department of Finance has coordinated the implementation of the policy on a phased-in basis for completion by the 1987-88 fiscal year. The Department of Finance plans to issue guidelines to departments shortly for the preparation of these documents. These actions will go a long way towards resolving our concerns in this area, if appropriate emphasis is given to the objectives of the programs from a results orientation perspective which can be incorporated in the departmental annual reports.

GOVERNMENT-WIDE REVIEWS

Departmental Annual Reports

Last year we reported that departmental annual reports were not being prepared in accordance with a directive from the Premier's Office which required them to provide an accountability based on the approved Estimates for the activities and programs of the departments. We reported that only sixteen out of the twenty departments issued annual reports; the four departments not issuing reports were not specifically required by their legislation to issue reports. We also pointed out that of the sixteen departments issuing reports, only nine were on the Province's fiscal year basis, while seven were on the calendar year basis. As well, only six departments issued their reports on a timely basis. We reported further that officials from the Premier's Office were in the process of developing guidelines for improving accountability, by requiring departmental reports to include a comparison of actual expenditure with the level of expenditure approved in the Estimates, with appropriate variance explanations.

We also recommended that the Public Accounts Committee should review annually, on a selective basis, the departmental administrative operations with senior officials, using the departmental annual reports as the basis for the reviews.

The Premier's Office has since issued a directive to clarify previous requirements concerning annual reports. The recent directive includes a requirement that departments include comparisons of actual expenditures with the Estimates, provide explanations for significant variances, and report on the Province's fiscal year basis.

During the current year we noted that two departments have followed the new directive with respect to financial accountability. The Departments of Culture, Heritage and Recreation, and Environment and Workplace Safety and Health now provide comparisons of actual and planned expenditures with explanations for significant variances. The latter Department also provides a comparison of actual expenditure for the current and previous year with explanations for significant variances.

There are currently five operating departments, which incurred expenditures for $170.2 million in 1984-85, that do not issue annual reports. These are:

Department	Expenditure 1984-1985
Attorney-General	$ 66.8
Crown Investments	.7
Energy and Mines	11.8
Northern Affairs	26.8
Urban Affairs	64.1
Total expenditure	$ 170.2

It is appreciated that two of the aforementioned departments have some individual branches which issue annual reports, however, there is no consolidated report for the whole department.

We believe that departmental annual reports form an important link in the communication and accountability processes. These reports, together with the summary financial statements in the Public Accounts, provide the members of the Legislature and the public with important information concerning government operations. The summary financial statements in the Public Accounts provide a stewardship report of the Government as a whole from a financial perspective only. The individual Departmental reports can provide members of the Legislature and the public with a fuller understanding of departmental operations and accomplishments. This can be realized by departmental reports providing meaningful information pertaining to the department's mandate and objectives, its client groups, and the results of its programs and activities undertaken to provide the required service to its client groups. It is only through use of both the Public Accounts statements and appropriate departmental reports that overall government operations can be understood and a determination made as to whether the intended results have been achieved from the use of public funds.

In our view, the five previously mentioned departments which do not issue departmental annual reports do not fulfill the communication and accountability expectations for the funds entrusted to them. We recommend that all departments provide annual reports to the Legislature and hence to the public. We also recommend that departments continue to work towards improving the informational aspect of their reports so that their reports eventually reflect the improvements made in the departmental planning and budgeting processes. To be as useful as possible, the reports should be

timely and should provide adequate background information so a newly elected representative or a member of the public can more readily understand departmental operations.

We appreciate that this will take time, however, it should not be too long before the more progressive departments make substantial progress. When appropriate progress has been made, the reports should be available within six months after the close of the fiscal year and should include:

- the department's role and mission;
- the department's objectives and the programs established to accomplish them;
- the profile of the client target groups and areas served;
- the major activities undertaken for each program, outlining the financial and other resources used, comparing them to the approved Estimates, with significant variance explanations;
- the extent to which the department's objectives were met and the effect of their programs;
- the significant methods used in the department to monitor the effectiveness of its programs while operating with due regard for economy and efficiency.

In the course of reviewing progress and recommendations for improvements in the management and accountability process in other jurisdictions, we noted material recently produced which supports our earlier recommendation concerning participation of senior departmental officials at Public Accounts Committee meetings. A comprehensive report prepared for the Government of Ontario in early 1985 entitled "A Study of Management and Accountability in the Government of Ontario" identified the work of the Public Accounts Committee as an important influence for good management, and a powerful deterrent to breaking rules. The report recommended that it should continue to be obligatory for Deputy Ministers to appear before the Committee, on behalf of the Minister, and to respond fully to its questions and requests for information about the performance of managerial responsibilities. While the organization of the management function will not be identical between Manitoba and Ontario, the basic thrust will be very similar. Accordingly, we continue to support this type of approach for Public Accounts Committees. The development of improved departmental reports will make such a process more practicable. We again recommend that the Public Accounts Committee review annually, on a selective basis, the departmental administrative operations with senior officials using the departmental annual reports as the basis for the review.

Internal Audit Function

Previously we reported that the Government had adopted an appropriate internal audit policy. The policy is summarized by a Treasury Board policy directive which states that:

> "Departments shall have an independent internal audit function that carries out a systematic review and appraisal of all departmental operations for purposes of advising management on internal management policies and controls".

Last year we reported the results of a review that we had made of the internal audit functions in all departments. This review disclosed that thirteen of twenty departments perform activities of a kind which can be considered as being part of an internal audit function. The seven departments which did not have this function were small departments. Seven of the larger departments with formal internal audit functions established had not yet progressed to the point where they were fully complying with Treasury Board's policy directive on internal audit, although they were adequately staffed and proceeding towards compliance. The other six of the thirteen departments performing activities of a kind considered to be of an internal audit function were not as advanced. These departments have implemented the function in only certain of their program areas and not across their whole department.

During the past year we followed up on the progress made in internal auditing in Government departments. In December 1984 the Department of Finance issued general guidelines on internal audit methodology to all departments. These guidelines were very useful because they covered internal audit planning, carrying out the audit, and reporting audit results, all of which would be helpful in organizing broader based audit work. Departmental internal audit personnel have started to work to organize a group for the exchange of information useful to developing the internal audit function in their departments. Certain of the departmental internal audit staff also benefit through membership and active participation in the Winnipeg Chapter of the international Institute of Internal Auditors. We also noted in the past year that one of the

larger departments which didn't previously have an internal audit function has established one. In addition, one of the smaller departments which previously had no activities of an internal audit nature has assigned a qualified staff member to undertake such activities on a part-time basis. We are generally satisfied that reasonable progress is continuing in the departments which have an internal audit function towards compliance with the policy directive of Treasury Board. However, several of the smaller departments have not yet made progress towards the implementation of an internal audit function. We recommend that smaller departments with no internal audit staff assign qualified personnel, at least on a part-time basis, to undertake priority elements of the internal audit function. We consider that this would constitute acceptable compliance with the intent of the internal audit policy.

DEPARTMENTS AND AGENCIES OPERATIONS

Department of Community Services and Corrections

In our previous year's report, we expressed a concern that the Department's management control and monitoring responsibilities were not being carried out as effectively as expected. Our concern pertained to central operations and to certain program areas, specifically the Headingley Correctional Institution and the Child and Family Services Division.

During the 1984-85 fiscal year, the Department has continued its efforts to strengthen its monitoring and control capabilities. The progress with respect to the actions initiated at the time of our last report is as follows:

- The internal audit unit is now well established, a mandate approved, and a long-term plan developed. The unit has begun to execute the plan. We are satisfied with the action taken to resolve our concern in this area.
- The Department has made significant progress in instituting a formal planning process which documents the rationale behind the allocation of resources to meet priorized needs. A comprehensive five phase planning cycle has been developed and the first four phases were implemented during 1984-85. Phase five of the planning cycle, which will be implemented during the 1985-86 fiscal year, provides a mechanism for monitoring and controlling the operational plan and measuring achievements against objectives. The complete implementation and effective operation of the planning cycle requirements by all planning units in the Department will provide senior management with the capability to effectively discharge their control and monitoring responsibilities. We are satisfied that these actions will resolve our concerns in this area.
- Improvements were made in the control and monitoring procedures over utilization of resources at the Headingley Correctional Institution that satisfy our concerns in this area.
- An Administrative Coordinator has now been appointed within the Child and Family Services Directorate. This individual's responsibilities include the effective operation of the Directorate's administration unit, including reporting systems and controls. The development of an automated Child and Family Information System is progressing and the project team is presently considering system design alternatives. This province-wide automated system is expected to satisfy the major informational needs of staff in the agencies, regional offices and the Child and Family Directorate.

The development and full implementation of new systems, particularly automated ones, takes considerable time, however, we are satisfied with the progress being made. Once these improvements become fully operational, the Department's systems and processes should be such as to enable it to effectively discharge its control and monitoring responsibilities.

Department of Education

Financing of School Divisions

For several years we have recommended that a change in Regulation 12/81 be made to provide for municipalities to make more timely payments of school tax levies to school divisions and the Public Schools Finance Board. In some cases, the municipalities collect the property taxes and are able to invest these funds prior to payment to school divisions or the Public Schools Finance Board. Where taxes are not paid by the due dates, the municipalities charge penalties to cover the cost of financing. On the other hand, the school divisions and the Public Schools Finance Board are incurring substantial financing charges under the prescribed method of financing school division expenditures when, in reality, the taxpayers generally are making payments on account of these expenditures to the municipalities on a timely basis. While it is appreciated that taxpayers fund the expenditures of the school divisions and the municipalities, if there is to be a

subsidy provided to the municipalities, it should be done in a more direct manner and not at the expense of education financing. We again recommend that the regulation be changed so that the timing of remittances will be more in line with tax collections.

Subsequent to our last year's report we were advised that discussions would be held between officials of the Department of Education and the Department of Municipal Affairs to resolve this matter. We understand that to some extent these discussions have been unavoidably delayed. It is appreciated that it is not easy to make changes affecting the financing of the municipalities and school divisions, especially during periods of difficult economic times. This has contributed to the issue being outstanding for so long. We encourage the Department to continue its efforts to resolve this matter as quickly as possible.

Department of Health

Private medical practices of physicians employed as civil servants

Last year we reported that a number of physicians who are civil servants also have private medical practices for which they receive fees for service from the Manitoba Health Services Commission. This raised a concern that there could be a potential for conflict of interest between their duties as civil servants and their private practices. Departmental officials have been working to resolve the matter. Conflict of interest guidelines for employees who carry on private businesses, including medical practices, have been developed and incorporated with the Government's general conflict of interest guidelines. They are in process of being implemented and are expected to be fully implemented in the department in the next few months.

The implementation of the conflict of interest guidelines, together with systems for monitoring the performance of Civil Service duties, should establish appropriate accountability in the department.

Department of Highways and Transportation

Parking Violations

Last year we reported that attempts to have the Registrar of Motor Vehicles process overdue parking violations on behalf of the City of Winnipeg proved to be administratively impractical and that current legislation did not provide an effective means of enforcing collection of parking fines by the City of Winnipeg.

We are now pleased to report that The Summary Convictions Act has been amended by Bill 80, which received Royal Assent on July 11, 1985. The revised legislation allows for enforcement of fines prescribed by any by-law of a municipality on summary conviction before a justice, and for imprisonment on default in paying fines.

We are also pleased to note that the City of Winnipeg has recently streamlined its system of monitoring parking tickets issued and is now able to issue arrest warrants on a timely basis. We are satisfied with the action taken and we consider that there are appropriate legislative and administrative means in place to enable the outstanding parking ticket situation to be brought to a current position.

Department of Natural Resources

During the year, the Department of Natural Resources detected a shortage of revenue in comparison to requirements. A comprehensive investigation by the Department's Internal Audit Section established that approximately $22,600 has been removed from the Department's revenue system over a two and one-half year period. As a result of the investigation, changes are being made to strengthen the Department's revenue system.

The results of the investigation have been turned over to the police for review, however, their review has not been completed as yet. The Department has received partial restitution. In addition, this matter has been reported to the Province's insurer for recovery. As a result of this matter, an individual's employment with the Province was terminated.

Communities Economic Development Fund

The Communities Economic Development Fund (CEDF) makes loans to businesses to assist them in achieving viability and for other purposes. CEDF expects to have these loans repaid and, in fact, its track record in this respect has not been unreasonable considering that it is a lender of last resort. Nonetheless, our review of recent and earlier loans, some of which have been determined to be largely uncollectible, indicates certain deficiencies of a general nature in CEDF's documentation and monitoring policies and procedures. We are concerned that if these deficiencies are not addressed, management may be precluded from taking

appropriate action on a timely basis to protect public funds. We recommend that the Board strengthen its documentation and monitoring policy for its loan portfolio. These improvements should lead to the development of a manual and a set of explicit expectations for those responsible for researching, recommending and monitoring loans. This would improve accountability over the loan process and, in our view, result in the strengthening of controls for the safeguarding of public funds.

Legal Aid Services Society of Manitoba

Last year's report indicated that for several years the Legal Aid Services Society of Manitoba has had to delay payment of accounts at the year-end because of the lack of funds initially voted in the appropriation or subsequently approved by special warrant. Although there was an increase to the amount of funds initially voted in the appropriation, these combined funds were insufficient for the fiscal year ended March 31, 1985. At the year-end there were about $496 thousand of Legal Aid billings received but unpaid and about $84 thousand of unpaid operating expenses, for a total of $580 thousand (1984 - $631 thousand).

We again recommend that the necessary funds be provided in the Province's appropriation in the appropriate fiscal year so that expenditures are not being deferred to the subsequent fiscal year. Such deferrals result in the understatement of expenditures for both the Society and the Province. Officials of the Society and the Department of the Attorney-General have indicated that this matter will be reviewed again in the 1985-86 fiscal year in an attempt to resolve these concerns .

Manitoba Development Corporation - Subsidiary and Investment Under Part II of the Act

Flyer Industries Limited

Our report to the Legislature for the previous year indicated that Flyer Industries Limited was having serious operational difficulties. Over the past three years, the Corporation's operating losses have increased from $3.4 million for its fiscal year ended December 31, 1982 to $12.3 million and $18.7 million for 1983 and 1984, respectively. Included in the 1983 and 1984 results were unusual warranty provisions of $6.3 million and $5.8 million, respectively pertaining to buses delivered over the past several years. A substantial loss is also expected for 1985.

In our prior report, we indicated that action was being taken to stabilize the Corporation's operations. A broad-based consulting group was employed as one of the major means by which the operations were to be improved. Since our last report, a comprehensive review of Flyer's operations has been carried out and a number of recommendations have been made and implemented. Some major operational improvements have resulted from this work. Flyer has also employed a number of consultants to fill certain critical staff positions to speed the rate at which operations and management controls are brought to an appropriate standard. This program is continuing. In addition, a reorganization of functions and responsibilities to maintain operations during this difficult period has also taken place. Despite these actions and improvements, the Corporation's operations still require significant improvement. These deficiencies have contributed to the losses indicated above. The Government is exploring all options available regarding Flyer and we have been advised that a decision regarding the future of Flyer is to be made as quickly as possible.

A. E. McKenzie Co. Ltd. and Subsidiaries

In previous years we reported concerns regarding the general over-optimism reflected in the Corporation's budgets. We also reported that special efforts were being made to turn the Corporation's operations around and that the new President expected to achieve a break-even or better position for the fiscal year ended October 31, 1984. Actual results for the fiscal year ended October 31, 1984 reflected net income of $0.1 million, compared to the $1.3 million loss for the prior year. A small profit has been budgeted and is expected to be realized for the year ending October 31, 1985. This is a commendable achievement and reverses the previous trends.

Because of allegations of a conflict of interest against three officers two years ago, a special audit was undertaken and our findings reported. Based on the findings, the Corporation has initiated civil action for recovery of assets. A police investigation was also undertaken which resulted in charges being laid. These matters have not been finalized as yet. We are continuing to provide assistance in these actions.

DEPARTMENTS AND AGENCIES OPERATIONS

Saunders Aircraft Corporation Limited - In Receivership

We previously reported that Saunders Aircraft Corporation Limited was placed in receivership by the Manitoba Development Corporation (M.D.C.) on May 20, 1976, and provided a summary of cash transactions and other pertinent data from that date. The following information provides an updating of these matters.

A summary of the receipts and disbursements of the Corporation during the period of receivership up to September 30, 1985 is as follows:

	May 20, 1976 to May 31, 1984 (reported last year)	June 1, 1984 to Sept. 30, 1985 (subsequent transactions)	Total
Receipts:			
Funds provided mainly for payment of liabilities and for working capital by:			
Manitoba Development Corporation	$ 351,184	$ —	$ 351,184
Province of Manitoba	176,942	—	176,942
	528,126	—	528,126
Proceeds from sale of assets	1,819,177	—	1,819,177
Collection of accounts receivable outstanding May 20, 1976	1,092,372	1,733	1,094,105
Aircraft leasing and other income	198,487	—	198,487
Interest income on surplus funds, net	439,685	16,422	456,107
Total receipts	4,077,847	18,155	4,096,002
Disbursements:			
Funds transferred to the Province of Manitoba	1,391,567	200,000	1,591,567
Payment of liabilities outstanding May 20, 1976	557,519	—	557,519
Salaries, wages and benefits	360,501	—	360,501
Insurance premiums	533,436	—	533,436
Receivers' fees, legal and other professional costs	507,476	57,835	565,311
Other operating costs	495,328	539	495,867
Total disbursements	3,845,827	258,374	4,104,201
Excess of receipts over (under) disbursements	$ 232,020	$ (240,219)	(8,199)
Funds on hand May 20, 1976			26,173
Funds held by the receiver-manager September 30, 1985			$ 17,974

In September 1985, the receiver-manager provided M.D.C. with an estimate of the possible further realization from the receivership of $200,000. This estimate pertains to an expected realization of an outstanding account which is being contested through the courts in Ontario.

Except for the litigation pertaining to the aforementioned account, no other matters remain unresolved requiring the expertise of a professional receiver-manager. When this litigation is completed, an application will be made to the court to discharge the receiver-manager. We will continue to carry out an ongoing monitoring of the finalization of the receivership.

The Pas Forestry Complex - Receiver

The Receiver's activities concerning The Pas Forestry Complex are continuing with only one settlement still being pursued. A summary of the Receiver's accounts for the fiscal year ended September 30, 1984, with comparative figures for the previous year, is presented below as a matter of information:

	September 30	
	1984	1983
Receipts:		
Realized under settlements of actions brought by the Receiver, the Manitoba Development Corporation and the Province of Manitoba	$ —	$ 37,331
Interest income	31,987	29,788
Total receipts	31,987	67,119
Disbursements:		
Receiver's operating expenses	1,502	8,627
Total disbursements	1,502	8,627
Excess of receipts over disbursements	30,485	58,492
Funds on hand, beginning of year	341,573	283,081
Funds on hand, end of year	$ 372,058	$ 341,573
Cash in bank and term deposits	$ 143,423	$ 115,849
Funds on deposit with the Minister of Finance	228,635	225,724
	$ 372,058	$ 341,573

DEPARTMENTS AND AGENCIES OPERATIONS

Manitoba Health Services Commission

Internal audit functions in the teaching hospitals

We previously recommended that internal audit functions be implemented in the teaching hospitals where these functions can be an effective aid to management. The Commission and hospitals have been supportive of this recommendation. However, because of the time needed for the development and approval of appropriate organization plans for the internal audit functions, there has been a lengthy delay in implementing them.

We are pleased to report that an internal audit function has now been implemented in one of the teaching hospitals. The other hospital has made a submission to implement an internal audit function in its organization. The Commission is currently reviewing the submission.

Accountability for remuneration for medical services

Several years ago we reported that there were inconsistencies in overhead recoveries for medical practices of physicians employed in the teaching hospitals where the hospitals provide services for these practices. There were differences in approach between the hospitals, and inconsistencies within the hospitals. We reported that certain services necessary for the practices were provided by the physicians from their practice fees. This was a variance from the agreement that the hospitals would provide these services and resulted in a bypassing of the control of the Boards. We also reported that there was no tabulation of the extent of the services being provided in this manner. Under these circumstances we were not in a position to be conclusive about the accountability for the overhead recoveries.

For the past few years representatives of the Commission, the teaching hospitals, and the University of Manitoba Faculty of Medicine have been reviewing this matter. However, the problem with simplifying accountability is related to the complexities of the teaching hospitals, the various responsibilities the physicians undertake, and the funding arrangements. Consequently, a broader-based review had to be carried out, which encompassed accountability for remuneration for hospital services funded by the Commission.

Job descriptions were obtained from the teaching hospitals for each physician's position so that the nature and extent of the physician's services to the hospital and rate of remuneration would be clearly documented. This was helpful, but did not fully establish appropriate accountability for remuneration. Therefore, we reported that we were not in a position to be conclusive about the accountability for remuneration for the services provided.

We also reported that the review produced a set of principles for the resolution of the issues. A principle was established that an overhead recovery is required from all fees for service generated by full-time physicians where the overhead cost is paid through the teaching hospital's budget. The other principles were that there should be appropriate accountability for Commission funding of allowances for medical administrative duties paid out of the teaching hospital's budget, and that the incomes of the teaching physicians are to remain competitive. These principles are still under review to determine whether they can be further defined.

Over the past year these principles were used as guidelines in developing certain information for accountability. Sufficient information was developed to enable satisfactory remuneration and overhead arrangements to be concluded for one of the medical departments of one of the teaching hospitals. Similar information is being developed for the other departments. Hopefully, the recent success will serve as a model for the resolution of the problems in the other departments.

The review has been constructive in other respects. It has led to a broader understanding of the complex income sharing and contribution arrangements for these physicians, and to better communication between the organizations. It has also contributed to changes in certain management information systems in the organizations. These developments represent an improvement in the overall accountability over the operations.

While there has been some success in resolving the difficulties, and significant improvement in overall accountability, full resolution of the accountability problems has not yet been achieved. Resolution is a difficult task under the present organizational and funding arrangements and can be expected to still take considerable time. We encourage the officials working to resolve these matters to continue their efforts and hope that they will continue to have the support of all those necessary to satisfactorily resolve those issues.

DEPARTMENTS AND AGENCIES OPERATIONS

Manitoba Housing and Renewal Corporation

Last year we had reported that organizational changes had brought housing operations more directly under the control of government but that improvements were still required in the areas of budgeting practices and collection policies for the Rural and Northern Housing Program. Also, we identified a concern over the monitoring of capital projects and the shareability of overexpenditures under Canada Mortgage and Housing Corporation (CMHC) agreements.

Budgeting practices

After transferring all non-capital housing programs to departmental operations, the corporate budget requirements are now simplified. All corporate operating elements that are funded by the Department of Housing are adequately identified and monitored. The only corporate operating element involving current funds that is not budgeted is the interest earned and reinvested in the sinking fund.

We are satisfied that suitable budget information is being developed on a program basis. However, we believe that the budget process would be further enhanced and better coordinated if a total corporate budget, in the same format as the annual statement of operations, was prepared annually and compared against actual results with significant variances being analyzed. Officials of the Corporation have indicated that they agree with this recommendation and will work toward its implementation during the current fiscal year.

Rural and Northern Housing Program

Last year we indicated that there were considerable rental and mortgage collection problems under this program and that a new collection policy to alleviate this problem had recently been approved. This policy was implemented late in the 1984-85 fiscal year, and our review of the level of arrears between March 31, 1985 and July 31, 1985 indicates that the new policy has been effective. Although these early statistics are not conclusive, they indicate a stabilization in the level of collection problems and hopefully will result in timely collections in all areas in the future. We are satisfied with the action being taken in this area.

Overexpenditure on rehabilitation of housing units

In our report last year we identified four rehabilitation projects that had resulted in considerable overexpenditures. We were concerned about the shareability of these cost overruns which were and still are in dispute with CMHC. Also, we were concerned about the poor project monitoring and budgeting practices which has prevented overruns from being identified and acted upon on a timely basis.

Our review this year indicates that a refined project status report is now in place that includes commitment monitoring and meaningful delegations of signing authority. We are pleased with the progress in this area, and recommend continued negotiations with CMHC to resolve the shareability of last year's project overexpenditures. These improvements to the project monitoring and budgeting practices, if effectively implemented, will resolve our concerns in this area.

With respect to the dispute with CMHC over the shareability of cost overruns, negotiations continued during the past year and are continuing in the current year. Officials of the Corporation expect resolution of this dispute during the current fiscal year.

Manitoba Lotteries Foundation

In our previous reports we expressed concern regarding deficiencies in the administrative procedures and control capabilities of the Foundation and its predecessor, the Lotteries and Gaming Licencing Board. There were staffing inadequacies which resulted in the monitoring and control objectives being mainly unrealized. There was no comprehensive program for the effective monitoring and enforcing of the Foundation's rules and procedures for controlling the lottery and gaming activities of licencees.

Last year we indicated that the Foundation's mandate had been significantly revised and its responsibilities substantially increased as a result of the Government's decision to take a more direct role over lottery and gaming activities within the Province. This led to a requirement for a substantially increased staffing component and to a need to reorganize its operations. While the staffing requirements have been met, the Foundation is still working to fully meet its monitoring and control objectives and the controllership function is

recognized as requiring significant additional emphasis. We recommend that the Foundation proceed with the review of its administrative policies and procedures, including certain aspects of its organizational structure, with a view to strengthening its controls and processes to address concerns identified by management and through the audit process. We recognize that the Foundation has been given a very significant task and that it would be unreasonable to expect an organization to expand so significantly without having some administrative problems. We commend the Foundation for the steps taken to strenghten its controls over its new operations to date, but we believe there are still a number of improvements required in order for the Foundation to fully address its monitoring and control capabilities and other administrative requirements.

DEPARTMENTS AND AGENCIES OPERATIONS

Manitoba Telephone System

Financial statements disclosure

As a matter of additional information not disclosed in the System's financial statements, the following analysis of the changes in the Investment Fund account for the current and prior fiscal years is provided (*in millions of dollars*):

	March 31, 1985	March 31, 1984
Balance of the Fund beginning of year	$ 32.2	$ 29.7
Foreign exchange losses transactions:		
Balance beginning of year	27.9	32.7
Add:		
Cash set aside equal to the unrealized losses charged to operations	.1	4.6
	28.0	37.3
Deduct:		
Cash withdrawn to cover the realized losses on redemptions	1.5	9.4
Balance end of year	26.5	27.9
Other transactions:		
Balance beginning of year	4.3	(2.9)
Add:		
Cash transferred to the Fund as directed by the Board	14.6	7.2
Balance end of year	18.9	4.3
Balance of the Fund end of year	$ 45.4	$ 32.2

The reserve provision for rate setting purposes for unrealized foreign exchange losses, as shown in the above analysis, amounted to $26.5 million as at March 31, 1985 ($27.9 million as at March 31, 1984).

DEPARTMENTS AND AGENCIES OPERATIONS

MTX Telecom Services Inc.

MTX Telecom Services Inc. (MTX) is a wholly-owned subsidiary of the Manitoba Telephone System. During the year we conducted a review of its management and financial reporting systems. We extended this review to encompass MTX'S monitoring of Saudi Arabia Data Communication Co. Ltd., a company in which MTX has a 50% interest.

Our review disclosed that several aspects of the management information system were not operating at a satisfactory level. In particular, we are concerned that the areas of planning, budgeting and financial reporting to the Board have not yet received sufficient attention. We appreciate that the Company is still relatively new and that the generation of new business has received priority attention from management. Nonetheless, we believe that it is appropriate to take steps to improve the management accountability system through improvements to the planning, budgeting and financial reporting systems.

Workers Compensation Board

We have previously reported that the operations of the Workers Compensation Board have resulted in a deterioration of the financial position of the Class Fund. The following deficits have been experienced:

1981 — $ 1.6 million
1982 — $12.1 million
1983 — $19.1 million
1984 — $17.8 million

The 1984 deficit was incurred even after receiving a subsidy of $4.0 million from the Government of the Province of Manitoba. No subsidy is contemplated for 1985 and a further deficit of $21.1 million is expected for the year ending December 31, 1985. The effect of these deficits will be to change a surplus of $36.9 million in the Class Fund as at December 31, 1980 into an accumulated deficit of approximately $34.8 million by December 31, 1985.

As indicated in our last year's report, this deficit financing is not in compliance with Section 66(1) of The Workers Compensation Act which states that "the board shall every year assess and levy upon and collect from, the employers in each class.....sufficient funds..... (a) to meet all amounts payable from the accident fund under this Part during the year including administration costs.....(c) to provide in each year capitalized reserves sufficient to meet the periodical payments of compensation accruing in future years in respect of all accidents that occur during the year.....".

We note that the Board has identified and recommended increases in the assessment rates which would fund these deficits, but to date, increases in the assessment rates in the appropriate amounts have not been approved by the Government. We are concerned that the failure to charge adequate assessment rates will result in an unfair burden being placed on future employers. The effect of this is that future employers will have to pay for accidents that happened in previous years for which they had no responsibility. In our view, this is contrary to existing legislation and is an inequity that should be resolved in a timely manner.

The Government of the Province of Manitoba has recently appointed a committee under Section 100 of The Workers Compensation Act to review the compensation system in Manitoba.

We are hopeful that the Committee will be able to complete its task in a timely manner and that its review will result in recommendations which, when implemented, will bring the activities of the Board into compliance with legislation and result in the adoption of a sound fiscal policy for the funding of the Board's operations.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Scope of Audit and Reporting Procedures

The scope of my Office's audit and reporting procedures, as set out in Exhibit 1 of this report, is consistent with that of the preceding year. The audits and reports thereon are up-to-date.

In addition to the audit of the Government of the Province of Manitoba, 58 Government agencies were audited and their financial statements are either reported on, or in process of being reported on, by my Office. The 58 agencies are listed in Exhibit 2 of this report. This is one more than the number shown in the previous year's Exhibit 2. The addition was the University of Winnipeg Pension Plan, which was newly established as a separate reporting entity.

My Office also carried out overview audits of the 18 Government agencies listed in Exhibit 3 of this report; the attest audits of these agencies were done by professional audit firms. This is four more overviews than were done by my Office in the previous year. The additions are:

Manitoba Energy Authority
Manitoba Properties Inc.
Manitoba Properties Leasing Inc.
Manitoba Properties Management Inc.

Organization

The manner in which this Office is organized is shown in the Organizational Chart, Exhibit 4 of this report. The organizational structure has not changed from that of the preceding year.

Staffing

In our previous year's report we indicated that our authorized staff complement was established at 61 positions. There has been no change in our staff complement in the past year. Our staff complement of 61 positions consists of 5 senior officers (management committee); 3 audit specialists (2 specializing in computer auditing and 1 in operational auditing); 12 senior auditors; 37 auditors, technical staff and accountancy students; and 4 secretarial and administrative staff. The actual staff person years utilized for the fiscal year ended March 31, 1985 were 55.06, as compared with 56.15 for the preceding fiscal year.

Through prompt replacement of staff, and the careful use of term employment, we are able to gear our recruitment program to workload demands. In our normal operations there frequently are a number of vacancies in authorized positions. As at September 15, there were 58 people on staff. We are able to fill vacancies as needed.

We have continued to use the services of a partner from an international audit firm on a contract basis. This partner specializes in computer auditing and he is used to ensure that our office maintains an up-to-date position in this area of auditing. In addition to providing advice and assistance by telephone and through correspondence, this specialist worked for 13 days in our Office during the fiscal year ended March 31, 1985.

Staff Training

Staff training is provided through a combination of on-the-job training and formal classroom training. To cooperate with the intent of the financial constraints being placed on all government departments, we deliver most of our formal training in-house using our own staff. We also take advantage of relevant courses offered by the Civil Service Commission. In this way, we are able to minimize the costs of our staff training. For example, during the current year we developed an extensive orientation program for new staff. This program consisted of a number of half-day seminars which were presented by directors and senior audit managers in our Office. The seminars covered such topics as: An Introduction to Legislative Auditing, Audit Planning, Systems Auditing and Computer Auditing. This program was well received. A post-presentation survey of participants was conducted which resulted in a number of improvements being identified for future offerings of the program.

The program for training of computer programmers amongst our audit staff is progressing well. The four programmers identified last year have successfully completed a number of computer applications during the current year and we look to a further extension of this program during 1985-86.

Recognizing the growing importance of microcomputers in the government environment, we sponsored a seminar for all our staff on microcomputer

audit concerns. Future plans call for the training of our auditors in the evaluation of security controls in microcomputer environments.

We continue to place a high priority on developing the managerial skills of our auditors. This represents a continuation of the shift in emphasis away from accounting and auditing technical training toward those management skills necessary to enable our staff to provide the most effective service practical to managers in government departments and agencies. All of our audit managers have now participated in a Civil Service Commission sponsored course which covers setting priorities, decision-making, problem-solving and protection of plans.

Through our participation in the Legislative Auditors' Practices Committee of the Legislative Auditors' Offices in Canada, we are keeping abreast of training trends and courses available at the various legislative audit offices across Canada. The shift in emphasis towards managerial development through training in management functions and skills is evident in most of these offices as well. By working with staff of these other offices, we hope to enhance the overall quality of the training programs in the legislative audit offices.

Revenue and Expenditure

The revenue and expenditure of the Office for the year ended March 31, 1985 as compared with budget, and with the actual revenue and expenditure of the preceding year, are as follows (*in thousands of dollars*):

	Budget	Actual		
	March 31 1985	March 31 1985	1984	Increase (Decrease)
Revenue	$ 633.5	$ 727.4	$ 647.0	$ 80.4
Expenditure:				
Salary	2,185.8	2,130.9	2,105.2	25.7
Other	111.0	93.5	87.7	5.8
	2,296.8	2,224.4	2,192.9	31.5
Net expenditure	$1,663.3	$1,497.0	$1,545.9	$ (48.9)

Variance explanations:

Revenue:

The extent of the variance between 1984 actual and 1985 actual warrants comment. The main reason for the variance is that $22.3 of 1984 billings was not received until 1985. In addition, the 1985 actual amount reflects increased billings to several entities which resulted from the considerably expanded operations or altered programs of those agencies in 1985 as compared to 1984. The revenues also included first time billings to two new entities. The variance between 1985 budget and 1985 actual is also explained by the above.

Expenditure:

The variance between budget and actual expenditure is accounted for by staff turnover, and a cooperative response to the Government's financial restraint program.

Audit of the Accounts of the Provincial Auditor's Office

An audit of the accounts of the Provincial Auditor's Office in accordance with section 19 of The Provincial Auditor's Act was carried out for the year ended March 31, 1985 by a professional accountant from the Comptroller's Division, Department of Finance. A copy of the audit report, which was issued to the Minister of Finance, is included as Exhibit 5 in this report.

Meeting of Legislative Auditors

The Canadian Conference of Legislative Auditors, an informal association of the legislative auditors of Canada and the Provinces, held its thirteenth annual meeting in Whitehorse, Yukon, July 8-10, 1985. These meetings serve as a useful forum for the exchange of information on matters of mutual interest, and the discussion of technical information important to the work of our Offices. The Assistant Provincial Auditor and I attended the meeting.

The 1986 Canadian Conference of Legislative Auditors is being arranged by the Provincial Auditor of Saskatchewan and it will be held in Regina, Saskatchewan.

ACKNOWLEDGEMENTS

It is an honour and privilege to serve as Provincial Auditor of Manitoba. I am finding my responsibilities interesting and challenging.

I am pleased to acknowledge the cooperation and assistance extended to me and members of my Office by officials and staff of Departments and Crown agencies, and to express our sincere appreciation to them. I would also like to thank the Members of the Legislative Assembly for their understanding and support.

In addition, I want to extend a sincere thank you to the members of my Office. I am pleased to be supported by such a capable staff.

F. H. Jackson, C.A.,

Provincial Auditor.

November 29, 1985,

Winnipeg, Manitoba.

EXHIBITS

1. Scope of audit and reporting procedures.

2. Schedule of government agencies whose financial statements were audited and reported on by the Provincial Auditor's Office.

3. Schedule of government agencies whose financial statements were audited and reported on by Professional Audit Firms with an overview audit by the Provincial Auditor.

4. Organizational chart of the Provincial Auditor's Office.

5. Report on the audit of the Provincial Auditor's Office.

6. Summary of Special Warrants by Departments.

7. A reproduction of my report in the Public Accounts on financial statements included therein.

8. A reproduction of the Operating Fund Assets and Liabilities and Trust Fund Assets and Liabilities in the Public Accounts.

9. A reproduction of the Summary of Revenue and Expenditure in the Public Accounts.

10. A reproduction of the Excess of Liabilities Over Recorded Assets in the Public Accounts.

11. A reproduction of the Statement of Changes in Financial Position — Operating Fund in the Public Accounts.

12. A reproduction of the Accounting Policies — Statement of Application in the Public Accounts.

SCOPE OF AUDIT AND REPORTING PROCEDURES

General Comments

In accordance with The Provincial Auditor's Act, the Provincial Auditor's Office is required to carry out various kinds of audits, and a monitoring of accountability to the Legislature concerning the Provincial Government, its agencies and the recipients of public moneys. The Office carries out financial and broad scope administrative management audits of the Provincial Government and certain of its agencies, administrative management overview audits of the remaining government agencies whose financial audits are carried out by private audit firms, and inspection audits of selected recipients of public moneys. Particulars of these types of audits and their reporting procedures are outlined in the following sections.

Audits of the Provincial Government and its Agencies Entirely Audited by the Provincial Auditor

The Provincial Government, including the Consolidated Fund and all its departments, and the Government agencies listed in Exhibit 2, are being audited using a systems based audit approach under the direction of professional accountants. These audits consisted of the following four components:

1. A financial examination for expressing an opinion on the fairness of the presentation in the financial statements. This examination is conducted in accordance with generally accepted auditing standards. It includes a general review and evaluation of the accounting procedures and internal financial controls, together with such tests of key financial controls, accounting records and supporting evidence as are considered necessary in the circumstances.

2. An audit of payments from the Consolidated Fund. This audit is carried out on an on-line basis as the requests for payments are presented by departments just before the requests are processed for payment by the central system. This part of the audit is fully coordinated with the systems based audits of departments. This approach complies with the pre-audit requirements of sections 10 and 11 of The Provincial Auditor's Act and is designed to provide an early detection of weaknesses or problems so that prompt corrective action can be taken. It also maintains the audit activity in a current position and adds discipline over special and unusual payments. This audit of payments consists of:

   a) An examination of all requests for payments to ensure that there is legislative authority for the payment and that the requests for payment are approved by designated officials. Checking of all significant requests and testing of certain other requests is undertaken to ensure that they are being handled in a business-like manner to appropriately protect the Province's interests. Requests for payment not meeting the aforementioned requirements would be refused. Where there is no legislative authority, payments cannot be made. Payment refused for other reasons can only be made on special authority of the Minister of Finance. Audit observations are normally attended to in a satisfactory manner so as to preclude any need for refusal. However, should there be a refusal the particulars would be fully reported to the Legislature in the annual report. There was no need for such refusals in the past year.

   b) Test checking of requests for payments for completeness of supporting documentation, accuracy of arithmetic calculations, compliance with government directives, etc. to ensure that the departmental purchasing, payroll and disbursements systems are operating satisfactorily. Matters noted which indicate that further attention is required are referred to the staff member in the Provincial Auditor's Office charged with the overall departmental audit responsibility for further consideration in the evaluation of the departmental systems, and in the development of audit recommendations for improvement. If the testing and evaluation of departmental systems revealed a breakdown, and it was concluded that the work being carried out by departmental personnel could not be relied upon to safeguard provincial funds, further requests for payments would be refused. In accordance with The Provincial Auditor's Act, payments could then only be made on the special authority of the Minister of Finance. Departmental systems are normally corrected to incorporate audit recommendations for improvement on an ongoing basis to maintain the integrity of the systems. However, should this not be done and there was need for refusal of

SCOPE OF AUDIT AND REPORTING PROCEDURES

payment requests, the matter would be fully reported to the Legislature in the annual report.

3. An examination of the administrative management practices and the related key internal controls to ascertain that the entity is organized and operating in a business-like manner with due regard for economy, efficiency and effectiveness. This examination is carried out within the capabilities of professional accountants with specialized training and experience. It includes a review of the entity's objectives and organizational structure, its budgeting and monitoring systems for comparing actual to budget with variance explanations, its internal audit system and other performance monitoring systems, its purchasing and staffing procedures, and its compliance with government guidelines.

4. A more in-depth investigation concerning specific problems observed during the course of the aforementioned examinations or noted from other sources such as concerns expressed:

   —in the Legislature or any of its committees;
   —in the news media; and,
   —privately by elected members, public servants and the general public. The sources of this information are held strictly confidential.

Management Overview Audits of Government Agencies Whose Financial Statements Were Audited and Reported on by Professional Audit Firms

Management overview audits are carried out by the Office for those government agencies listed in Exhibit 3. These are agencies for which audit firms were appointed to carry out audits for reporting on their financial statements. These audits by the audit firms are of a kind as described in the preceding component 1. The management overview audits by the Office consist of a review of the audited financial statements and management reports of the audit firms and the procedures as described in the preceding components 3 and 4.

Inspection Audits of Recipients of Public Moneys

The inspection audits of recipients of public moneys are carried out under the authority of section 17(4) of The Provincial Auditor's Act. These audits consist of visits to a limited number of grantees; the audit procedures are similar to those of the management overview audits described in the preceding section. A review of a much larger number of grantees' accountability is carried out during the course of the audits of government departments and government agencies. These review procedures mainly involve an evaluation of the adequacy of the grantors' monitoring systems and the findings of these systems, together with an assessment of the findings and a determination whether appropriate corrective action is being taken.

Reporting Procedures

Reporting on financial statements

Reports are issued on the fairness of the presentation of information in the financial statements in the Public Accounts, and of the government agencies listed in Exhibit 2.

Internal reporting

Observations made during the course of our audits identifying weaknesses in internal control, ineffective supervision, records not being up-to-date and any other deficiencies or irregularities are recorded in the working papers and immediately brought to the attention of the officials concerned for appropriate action. Matters of a kind which warrant the attention of ministers and chairpersons of the boards of Government agencies are directed to them in written reports in accordance with the requirements of subsection (3) of section 12 of The Provincial Auditor's Act. During subsequent visits, our auditors follow-up these matters to ascertain that appropriate action has been taken to resolve the problems.

SCOPE OF AUDIT AND REPORTING PROCEDURES

Annual report to the Legislative Assembly

Significant problems, which have been reported to ministers and chairpersons of the boards of Government agencies but which have not been resolved within a reasonable period of time, are reported on in the annual report to the Legislative Assembly. A number of significant problems which have been resolved are also included in the annual report. They are of a kind which in the Provincial Auditor's judgement warrant the attention of the Assembly as information, either because they were raised in the Assembly, or a committee of the Assembly, or for reasons of maintaining confidence in the system. Both the problems and the corrective actions are reported.

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Financial Statements were Audited and Reported on by the Provincial Auditor's Office

Name of Organization	Fiscal Year Ended
A. E. McKenzie Co. Ltd. and Subsidiaries	October 31, 1984
Alcoholism Foundation of Manitoba	March 31, 1985
Board of Administration under The Embalmers and Funeral Directors' Act	December 31, 1984
Brandon University	March 31, 1985
Brandon University Pension Fund	December 31, 1984
Centre Culturel Franco-Manitobain	March 31, 1985
Channel Area Loggers Limited	March 31, 1985
Civil Service Superannuation Fund	December 31, 1984
Communities Economic Development Fund	March 31, 1985
Co-operative Loans and Loans Guarantee Board	March 31, 1985
Co-operative Promotion Board	March 31, 1985
Criminal Injuries Compensation Board	March 31, 1985
Deer Lodge Centre	March 31, 1985
Department of Municipal Affairs - Minister's Trust Account	March 31, 1985
Horse Racing Commission	March 31, 1985
Leaf Rapids Town Properties Ltd.	March 31, 1985
Legal Aid Services Society of Manitoba	March 31, 1985
Liquor Control Commission	March 31, 1985
Manitoba Agricultural Credit Corporation	March 31, 1985
Manitoba Arc Authority Incorporated	March 31, 1985
Manitoba Arts Council	March 31, 1985
Manitoba Beef Commission	March 31, 1985
Manitoba Centennial Centre Corporation	March 31, 1985
Manitoba Crop Insurance Corporation	March 31, 1985
Manitoba Data Services Commission	March 31, 1985
Manitoba Development Corporation	March 31, 1985
Manfor Ltd.	March 31, 1985
Manitoba Health Research Council	September 30, 1984
Manitoba Health Services Commission	March 31, 1985
Manitoba Hospital Capital Financing Authority	March 31, 1985
Manitoba Housing and Renewal Corporation	March 31, 1985
Manitoba Intercultural Council	March 31, 1985
Manitoba Lotteries Foundation	March 31, 1985
Manitoba Mental Health Research Foundation	March 31, 1985
Manitoba Milk Prices Review Commission	March 31, 1985
Manitoba Mineral Resources Ltd.	March 31, 1985
Manitoba Research Council	December 31, 1984
Manitoba Text Book Bureau	March 31, 1985
Manitoba Trading Corporation	March 31, 1985
Manitoba Vegetable Producers' Marketing Board	March 31, 1985
Manitoba Water Services Board	June 30, 1984
	March 31, 1985

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Financial Statements were Audited and Reported on by the Provincial Auditor's Office

Name of Organization	Fiscal Year Ended
Moose Lake Loggers Ltd.	March 31, 1985
Municipal Employee Benefits Fund	December 31, 1984
Northern Affairs Fund	March 31, 1985
Peak of the Market Sales Ltd.	June 30, 1984
Public Schools Finance Board	December 31, 1984
Public Service Group Insurance Fund	April 30, 1984
Public Trustee of Manitoba	March 31, 1985
Superannuation Resource Investment Corporation of Manitoba Inc.	December 31, 1984
Teachers' Retirement Allowances Fund	December 31, 1984
Teachers' Retirement Resources Investment Corporation of Manitoba Inc.	December 31, 1984
Universities Grants Commission	March 31, 1985
University of Manitoba	March 31, 1985
University of Manitoba Pension Plan (1970)	December 31. 1984
University of Winnipeg	March 31, 1985
University of Winnipeg Pension Plan	December 31, 1984
Venture Manitoba Tours Ltd.	March 31, 1985
Winnipeg Racing Ltd.	March 31, 1985

In addition to the foregoing, there are other government agencies which do not have their own funds but carry out their operations through the Consolidated Fund. The operations of these agencies are audited as part of our regular audit of the Consolidated Fund.

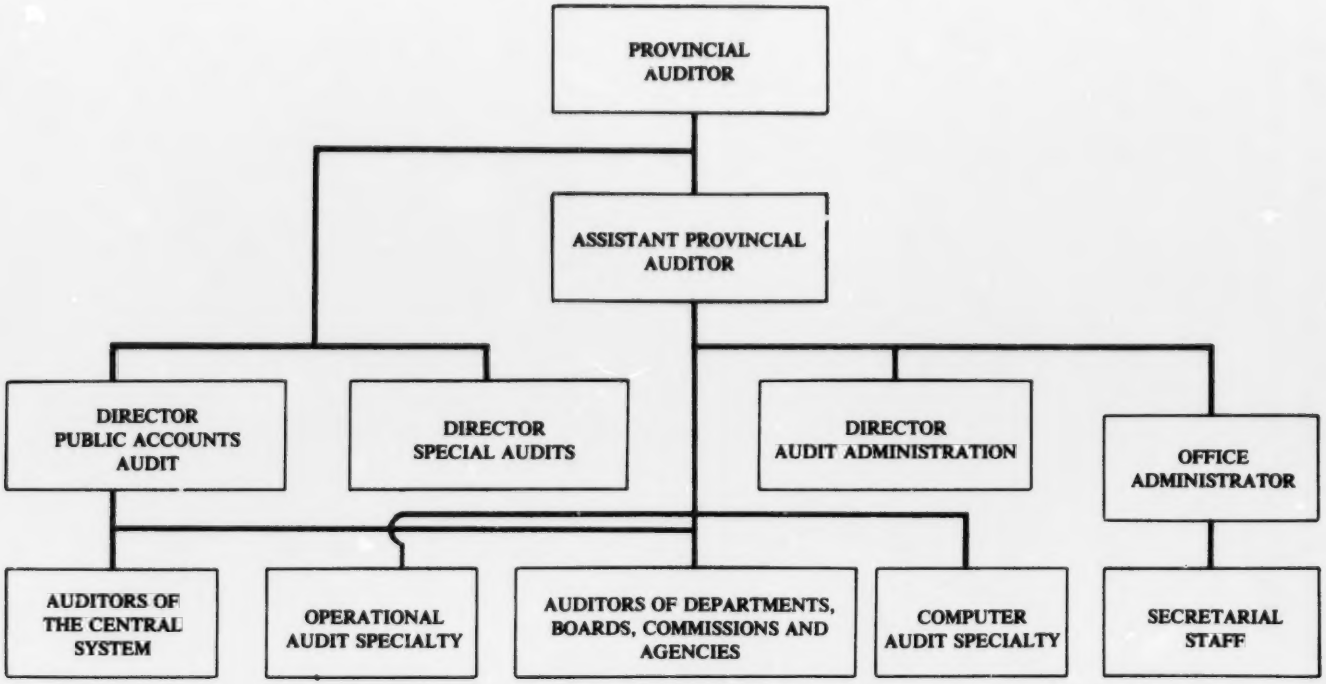
Exhibit 3

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Financial Statements were Audited and Reported on by Professional Audit Firms with an Overview Audit by the Provincial Auditor's Office

Name of Organization	Fiscal Year Ended
Alonsa Conservation District No. 3	December 31, 1984
Cooks Creek Conservation District No. 5	December 31, 1984
Credit Union Stabilization Fund	December 31, 1984
Flyer Industries Limited	December 31, 1984
Fonds de Sécurité des Caisses Populaires	December 31, 1984
Manitoba Boxing and Wrestling Commission	March 31, 1985
Manitoba Energy Authority	March 31, 1985
Manitoba Hydro-Electric Board	March 31, 1985
Manitoba Properties Inc.	January 31, 1985
Manitoba Properties Leasing Inc.	December 31, 1984
Manitoba Properties Management Inc.	December 31, 1984
Manitoba Public Insurance Corporation	October 31, 1984
Manitoba Telephone System	March 31, 1985
Rehabilitation Centre for Children Inc.	March 31, 1985
Turtle Mountain Conservation District No. 4	December 31, 1984
Turtle River Watershed Conservation District No. 2	December 31, 1984
Whitemud Watershed Conservation District No. 1	December 31, 1984
Workers Compensation Board	December 31, 1984

ORGANIZATIONAL CHART OF THE PROVINCIAL AUDITOR'S OFFICE



The chart is structured on a hierarchical basis but in practice the roles and responsibilities may overlap. The overall policies and operations of the Audit Office are directed by a Management Committee consisting of the Provincial Auditor, the Assistant Provincial Auditor and the three Directors with each member focusing his attention on specific areas of responsibility.

Exhibit 4

Exhibit 5

MANITOBA
DEPARTMENT OF FINANCE
Comptroller's Division

August 23, 1985

Honourable Victor Schroeder
Minister of Finance
103 Legislative Building
Winnipeg, Manitoba

Dear Sir:

Section 19 of the Provincial Auditor's Act states:

> "A qualified auditor nominated by the Executive Council or a committee thereof shall examine the receipts and disbursements of the Office of the Provincial Auditor and shall annually make a report of the outcome of the examination to the assembly which shall be submitted to the member of the Executive Council charged with the administration of The Financial Administration Act on or before the last day of December next following the end of the fiscal year of the government to which the report relates."

My Division now performs this audit on a regular basis. Under my direction, an auditor from the Systems Planning and Development Branch has conducted an audit of the Provincial Auditor's Office for the year ended March 31, 1985.

The audit was limited to a general review of the accounting procedures and accounting records of the Provincial Auditor's Office. Such tests were performed as were considered necessary in the circumstances.

In my opinion, the accounts of the Audit Office are maintained in an efficient, well organized manner and comply with all the requirements of the Financial Administration Act and all other applicable statutes.

Yours truly,

W.C. Fraser
Comptroller
Department of Finance

c.c.: F.H. Jackson

GOVERNMENT OF THE PROVINCE OF MANITOBA

Exhibit 6

Summary of Special Warrants by Departments

Department	Year Ended March 31 1985	1984
Legislation	$ —	$ 103,500
Executive Council	1,539,800	125,400
Agriculture	8,000,000	—
Attorney-General	767,000	1,508,100
Business Development and Tourism	316,800	—
Civil Service	185,400	2,650,228
Community Services and Corrections	778,600	6,093,800
Consumer and Corporate Affairs	—	43,000
Co-operative Development	—	52,000
Crown Investments	30,000	—
Culture, Heritage and Recreation	—	6,000
Education	2,701,400	2,375,000
Employment Services and Economic Security	11,372,700	286,000
Energy and Mines	—	—
Environment and Workplace Safety and Health	—	4,193,100
Finance	5,906,000	7,000,000
Government Services	24,000,000	1,450,400
Health	12,678,400	—
Highways and Transportation	4,471,500	—
Natural Resources	5,348,400	6,455,800
Northern Affairs	63,000	1,608,300
Urban Affairs	—	602,877
Flood Control and Emergency Expenditures	3,928,000	2,700,000
Public School Support	—	67,000,000
	$ 82,087,000	$ 104,253,505

NOTE: The 1984 figures have been restated where necessary for comparison purposes to reflect transfers between departments in 1985.

REPORT OF THE PROVINCIAL AUDITOR ON THE CONSOLIDATED FUND FINANCIAL STATEMENTS IN THE PUBLIC ACCOUNTS OF MANITOBA

I report that the Consolidated Fund financial statements included in the Public Accounts of Manitoba have been examined under my direction for the fiscal year ended March 31, 1985. The examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as were considered necessary in the circumstances.

The subtotal on the Summary of Revenue and Expenditure statement for the fiscal year ended March 31, 1985 stated as Excess of Expenditure over Revenue of $482,533,775 (1984 — $428,949,282) reflects the excess of expenditure over revenue in accordance with the stated accounting policies. It is this figure which is included in the Excess of Liabilities over Recorded Assets statement to reflect the changes in the Operating Fund Assets and Liabilities from one year to the next. The information which follows these figures in the Summary of Revenue and Expenditure statement provides only limited information pertaining to expenditure related to capital assets; further information is required to appreciate the full effects of expenditure related to capital assets on the Province's operations.

In my opinion, the Consolidated Fund financial statements, together with the supporting data and explanatory notes in the Public Accounts and the information provided in the preceding paragraph, fairly present information in accordance with the accounting policies of the Government stated in the Public Accounts on a basis consistent with that of the preceding year.

F. H. Jackson, C.A.,
Provincial Auditor.

November 29, 1985,
Winnipeg, Manitoba.

GOVERNMENT OF THE PROVINCE OF MANITOBA

OPERATING FUND ASSETS AND LIABILITIES

As at March 31, 1985

(with comparative figures for March 31, 1984)

ASSETS	March 31, 1985	March 31, 1984
Temporary Investments	$ 890,815,558	$ 799,686,548
Advances and Other Receivables:		
Crown Corporations, Agencies, Boards and Commissions (Net of related Sinking Funds of $102,189,079 at March 31, 1985 and $88,664,715 at March 31, 1984)	2,071,611,374	2,041,499,514
Government of Canada and Others	138,932,003	129,038,847
Long Term Investments	295,438,638	251,238,665
	$3,396,797,573	$3,221,463,574
LESS: Allowance for Losses on Realization of Assets	173,648,518	131,600,976
Total Assets	$3,223,149,055	$3,089,862,598
Excess of Liabilities Over Recorded Assets and Other Obligations Held By The Province Considered To Be Similar In Nature:		
Serial Debentures of School Divisions and Districts Transferred from The Manitoba School Capital Financing Authority	$ 189,044,291	$ 201,162,196
Securities Received from the Sale of Land and Buildings to Manitoba Properties Inc.	128,997,631	–
Excess of Liabilities over Recorded Assets	2,256,022,899	2,055,189,722
	$2,574,064,821	$2,256,351,918
	$5,797,213,876	$5,346,214,516
LIABILITIES		
Amount Owing to the Trust Fund	$ 525,858,331	$ 469,682,116
Bank Overdraft and Promissory Notes	41,700,890	80,472,903
Accounts Payable, Accrued Charges and Funds Subject to Call	447,914,112	374,704,770
	$1,015,473,333	$ 924,859,789
Bonds, Debentures and Other Long Term Debt	$5,471,310,211	$4,966,311,055
LESS: Sinking Funds Provided	660,069,668	515,456,328
	$4,811,240,543	$4,450,854,727
LESS: Debentures issued under Financial Assistance Agreements	29,500,000	29,500,000
	$4,781,740,543	$4,421,354,727
Total Liabilities	$5,797,213,876	$5,346,214,516
GUARANTEED AND INDIRECT LIABILITIES		
Securities Guaranteed by the Government, as listed on Pages 3-9 to 3-11		
Self-supporting Debt	$1,657,612,549	$1,624,681,690
Debt of Crown Corporations Whose Main Source of Income is the Consolidated Fund	278,181,350	–
Debt Serviced in Whole or in Part from the Consolidated Fund	14,570,551	18,958,129
	$1,950,364,450	$1,643,639,819
LESS: Applicable Sinking and Other Related Trust Funds	341,539,242	241,060,666
	$1,608,825,208	$1,402,579,153

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND ASSETS AND LIABILITIES

As at March 31, 1985
(with Comparative Figures for March 31, 1984)

ASSETS	March 31, 1985	March 31, 1984
Amount Due from Operating Fund	$ 525,858,331	$469,682.116
Cash and Investments	541,661,351	476,315,852
Total Trust Assets	$1,067,519,682	$945,997,968
LIABILITIES		
Trust Fund Balances	$1,067,519,682	$945,997,968
Total Trust Liabilities	$1,067,519,682	$945,997,968
CUSTODIAL TRUST FUNDS		
Cash, Bonds and Other Securities held by the Department of Finance and Other Government Departments — as listed on page 5 - 21	$ 457,972,427	$429,009,136

GOVERNMENT OF THE PROVINCE OF MANITOBA

SUMMARY OF REVENUE AND EXPENDITURE

For the Year Ended March 31, 1985
(with comparative figures for March 31, 1984)

Actual 1983-1984	Actual 1984-1985	Net Increase (Decrease)		1984-1985 Actual	1984-1985 Estimated	1984-1985 Variance
$3,226,104,237	$3,407,180,369	$181,076,132	Expenditure	$3,407,180,369	$3,457,626,900	$ (50,446,531)
2,797,154,955	2,924,646,594	127,491,639	Revenue	2,924,646,594	2,968,950,900	(44,304,306)
$ 428,949,282	$ 482,533,775	$ 53,584,493	**Excess of Expenditure Over Revenue**	$ 482,533,775	$ 488,676,000	$ (6,142,225)
263,488,094	291,604,031	28,115,937	Less: Expenditure Related to Capital Assets	291,604,031	321,124,100	(29,520,069)
$ 165,461,188	$ 190,929,744	$ 25,468,556	**Net Operating Deficit**	$ 190,929,744	$ 167,551,900	$ 23,377,844

NOTE 1: The "Estimated" Expenditure shown above consists only of the Main and Supplementary Estimates. This amount was increased during the fiscal year as follows:

Main and Supplementary Estimates (including general statutory appropriations)	$3,457,626,900
Special Warrants	82,087,000
Adjustment of estimated amount of statutory appropriations to actual expenditure	(23,819,745)
Total Authorized Expenditure	$3,515,894,155

NOTE 2: The amounts shown for Expenditure Related to Capital Assets are the total amounts expended without any reduction for related revenues. Revenue for the fiscal years 1983-84 and 1984-85 includes Revenue Related to Capital Assets of $19.8 million and $21.4 million respectively.

GOVERNMENT OF THE PROVINCE OF MANITOBA

EXCESS OF LIABILITIES OVER RECORDED ASSETS

As at March 31, 1985

Balance March 31, 1984		$2,055,189,722
Deduct		
Proceeds from the Sale of Land and Buildings to Manitoba Properties Inc. (Note 1)		323,748,140
		$1,731,441,582
Excess of Expenditure over Revenue for the fiscal year ended March 31, 1985		482,533,775
		$2,213,975,357
Add		
Increase in Allowance For Losses on Realization of Assets		
March 31, 1985 Balance	$ 173,648,518	
March 31, 1984 Balance	131,600,976	42,047,542
Balance March 31, 1985		$2,256,022,899

NOTE 1: On August 1, 1984, the Province sold land and buildings, which were valued at $532,995,036, to two crown corporations, Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. Under the purchase arrangement, the properties were resold to Manitoba Properties Inc. at the same price. The Province received the following consideration for the transaction:

104,633,448 common shares of Manitoba Properties Leasing Inc.	$104,633,448
104,633,448 common shares of Manitoba Properties Management Inc.	104,633,448
Promissory note of Manitoba Properties Inc. due July 31, 1994	128,977,631
Cash	194,750,509
	$532,995,036
Less: Special Valuation Account	209,246,896
	$323,748,140

On resale of the assets to Manitoba Properties Inc., the two crown corporations each received 10,000 common shares of Manitoba Properties Inc., which were valued at a total of $209,266,896. The resale agreement stipulated that Manitoba Properties Inc. would record the issue of these shares in its share capital account at a value of $20,000 and that the balance of $209,246,896 would be designated and accounted for as contributed surplus. This contributed surplus was subsequently transferred to retained earnings and is available for the payment of annual dividends to the preferred shareholders of Manitoba Properties Inc. Payment of dividends from retained earnings has the effect of reducing the value of the Manitoba Properties Inc. shares owned by Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. and would have the collateral effect on the shares in these two corporations owned by the Province. As a result, the Province has allocated $209,246,896 of the sales proceeds to a special valuation account. This account is used to reflect the diminution of the value of the common shares of Manitoba Properties Leasing Inc. and of Manitoba Properties Management Inc., as the result of dividends paid to preferred shareholders of Manitoba Properties Inc.

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF CHANGES IN FINANCIAL POSITION — OPERATING FUND

For the Year Ended March 31, 1985
(with comparative figures for the year ended March 31, 1984)

		March 31, 1985		March 31, 1984
EXCESS OF EXPENDITURE OVER REVENUE		$482,533,775		$428,949,282
Prior Years' Adjustments				
Provincial Grant Payments to School Divisions			$ 72,083,615	
Provincially Collected Tax Revenue			(40,467,716)	31,615,899
Cash Transfer on Dissolution of The Manitoba School Capital Financing Authority				(2,882,424)
Net Increase in Long Term Investments, Advances and Other Receivables in Respect of:				
Crown Corporations, Agencies, Boards and Commissions	$ 74,311,832		$149,283,703	
Others	4,922,111		5,757,225	
	$ 79,233,943		$155,040,928	
Principal repayments on Serial Debentures transferred from The Manitoba School Capital Financing Authority	(12,117,905)	67,116,038	(11,180,380)	143,860,548
NET FINANCIAL REQUIREMENT		$549,649,813		$601,543,305
FINANCING WAS PROVIDED BY:				
Debt Transactions				
Proceeds of Loans	$638,272,122		$1,050,651,583	
LESS: Retirement of Loans	133,272,966		304,627,076	
	$504,999,156		$ 746,024,507	
LESS: Net Contributions to Sinking Funds	144,613,340		103,306,076	
Net Proceeds from Borrowing	$360,385,816		$642,718,431	
Cash Received from the Sale of Land and Buildings to Manitoba Properties Inc. (Note 1)	194,750,509		–	
TOTAL FINANCING		555,136,325		642,718,431
FINANCING EXCEEDED REQUIREMENT		$ 5,486,512		$ 41,175,126
WORKING CAPITAL (DEFICIENCY) BEGINNING OF YEAR		(36,171,002)		(77,346,128)
WORKING CAPITAL (DEFICIENCY) END OF YEAR		$ (30,684,490)		$ (36,171,002)

NOTE 1: On August 1, 1984, the Province sold land and buildings, which were valued at $532,995,036, to two crown corporations, Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. Under the purchase arrangement, the properties were resold to Manitoba Properties Inc. at the same price. The Province received the following consideration for the transaction:

104,633,448 common shares of Manitoba Properties Leasing Inc.	$104,633,448
104,633,448 common shares of Manitoba Properties Management Inc.	104,633,448
Promissory note of Manitoba Properties Inc. due July 31, 1994	128,977,631
Cash	194,750,509
	$532,995,036

GOVERNMENT OF THE PROVINCE OF MANITOBA

ACCOUNTING POLICIES—STATEMENT AND APPLICATION

STATEMENT

The basic accounting policies followed by the Government of Manitoba, which have been applied in the preparation of these Public Accounts, are summarized below. These policies have been developed and are applied in accord with the provisions of the Financial Administration Act, which is Chapter F55 of The Continuing Consolidation of The Statutes of Manitoba. Further information regarding their application to the financial transactions of the Government is provided in the section entitled "Application".

I. THE ACCOUNTING ENTITY

The financial transactions of the Government are recorded in "The Consolidated Fund ". The activities of The Consolidated Fund are divided into the "Operating Fund", which records the operational activities of the Government, and the "Trust Fund", which records the trust administration function.

Financial statements prepared for the "Operating Fund" report amounts received as Government revenue, expenditure on Government programs, the lending and investment of Government funds and the borrowing and repayment of debt. Financial statements prepared for the "Trust Fund" report the activities in the various categories of trust money administered by the Government.

The financial operations of the provincial Crown Corporations, Agencies, Boards and Commissions are reflected in The Consolidated Fund to the extent that:

1) They receive money from or pay money to the Government.
2) Any deficits they incur are adjusted against the amounts loaned, advanced or invested in them by the Government.

II. CASH BASIS OF ACCOUNTING

A REVENUE

i) Revenue, with the exception of provincially collected tax revenue, shared-cost receipts and Canada-Manitoba Fiscal Arrangements, is ordinarily recorded on a cash basis. Accordingly, all money received by Departments on or before March 31 is included in the revenue for the fiscal year, provided that it is deposited with the Minister of Finance prior to the fifteenth day of April, immediately following.

ii) Provincially collected taxes received by the Government in April with respect to collections made by Agents during March are recorded as revenue for the fiscal year just ended. These amounts are recorded as an account receivable from these Agents as at March 31.

iii) Money received pursuant to shared-cost agreements and arrangements that extend over more than one fiscal year is recorded as revenue in each fiscal year in proportion to the related expenditure made in the respective year. Accordingly, the uncollected balance of the shared-cost claims related to the fiscal year being reported will be included in the revenue of that fiscal year.

iv) Revenue and expenditure are recorded in gross amounts (referred to as the Gross Accounting Concept) with the exception of the Municipal Share of Individual and Corporation Income Taxes, which is paid to Municipalities in accordance with the Provincial-Municipal Tax Sharing Act and is not recorded as revenue by the Government.

v) Recoveries from Crown Corporations and Government Agencies of the debt servicing costs on self-supporting debt and certain investment income are recorded as a reduction of Public Debt expenditure.

B EXPENDITURE

Expenditure is recorded on a cash basis, modified to allow an additional forty-five days after the end of the fiscal year for the processing of payments pertaining to that fiscal year. Salaries and wages, however, are charged to the fiscal year in which they are paid. As well, an accrual is made to March 31st for interest payable on bonds, debentures and other long-term debt.

III. ASSETS AND LIABILITIES

1. The assets and liabilities reported in the financial statements are financial claims consisting of assets which are claims by the Government on other parties and liabilities which are claims by other parties on the Government.
2. Expenditure for the acquisition and/or construction of physical assets together with inventories and other deferred expenditures is not considered to differ from any other service to the Public and accordingly is treated as an expenditure of the year in which the expenditure is made. Since such expenditure does not represent financial claims on others, it is not reported as an asset at fiscal year-end. This does not negate the fact that the Government has substantial holdings of physical assets such as buildings, highways, education and health facilities, which may tend to appreciate in value over time.
3. Amounts loaned, advanced or invested in Crown Corporations, Agencies, Boards and Commissions are subject to annual revaluation. An Allowance For Losses On Realization Of Assets is provided and is adjusted annually to reflect the estimated change in value of these assets.

4. Bonds, debentures and other long-term debt are recorded as liabilities at the par value of such securities and any discount, premium or commission expense is treated as an expenditure of the year in which it is incurred. For foreign issues, the par value is converted to Canadian Funds at the exchange rate in effect at the date of issue, or the actual conversion rate of the proceeds. Sinking funds are maintained in accordance with the legal requirements of the debt instruments and the Financial Administration Act.

IV. GUARANTEED AND INDIRECT LIABILITIES

In addition to having direct debt, the Government also acts as a guarantor of securities issued by various other entities. The debt guaranteed pertaining to Crown Corporations, Agencies, Boards and Commissions is largely self-supporting. Other guaranteed debt for schools, universities and hospitals is serviced in whole or in part from appropriations of the Consolidated Fund. Legislation requires the maintenance of Sinking Funds for the retirement of the debt of most Crown Corporations, Agencies, Boards and Commissions. These Sinking Funds are maintained by the Minister of Finance through annual contributions from the Crown Corporation, Agency, Board or Commission to whom the debt applies and are held in the Trust Fund.

Other Contingent Liabilities that result from other financial activities of the Government are also reported annually in the Public Accounts.

APPLICATION

The following outlines the application of these accounting policies to the financial transactions of the Government:

I. REVENUE

The revenue of the fiscal year is generally the amount received during the fiscal year. Exceptions are made for provincially collected taxes, shared-cost receipts, and revenue from the Government of Canada, which are subject to the following additional practices:

a) Provincially collected taxes received by the Government in April with respect to collections made by Agents during March are recorded as revenue for the fiscal year just ended. These amounts are recorded as an account receivable from these Agents as at March 31.

b) Where, pursuant to an agreement or arrangement, money is received in advance relating to projects for which expenditure is to be made in more than one fiscal year, the money is deemed to have been received in each fiscal year in proportion to the related expenditure made in the respective fiscal year. A statement of the amounts not taken into Revenue (Deferred Revenue) is included in Section 4 of the Public Accounts.

c) It is the practice to show the uncollected balance of claims related to shared-cost agreements with the Government of Canada as an accounts receivable at March 31. This accrual is made in order that the revenue from this source is recorded in proportion to the related expenditure incurred in the fiscal year.

d) An additional practice is in effect regarding revenue from the Government of Canada under the Canada-Manitoba Fiscal Arrangements. The accounts are kept open until June 30 to reflect any adjustments to this revenue for the fiscal year just ended that the Government of Manitoba may become aware of before that date. Since this is a major source of Government revenue, this practice is considered necessary to show the financial condition of the Government in the most accurate manner possible.

II. EXPENDITURE

The expenditure of the fiscal year is essentially the payments made from appropriations during the fiscal year and for a subsequent forty-five day period after March 31. The accounts remain open during this period to allow processing time for expenditure pertaining to the fiscal year just ended.

An exception to this procedure is made for the interest cost on the long-term debt of the Government. In this regard, an accrual is made to March 31st for the interest payable on bonds, debentures and other long-term debt. In the case of foreign issues, the accrual is based on the exchange rate that was recorded at the time of debt issue. There is no provision made for the fluctuation of foreign currencies between the debt issue dates and the interest payment dates.

The Allowance For Losses On Realization Of Assets is not charged to an appropriation. This amount, which represents an estimate of the change in recoverable value of the loans, advances and investments in Crown Corporations, Agencies, Boards and Commissions during the fiscal year, is reported on the statement that discloses the Excess of Liabilities Over Recorded Assets. When a legal realization of the loss occurs, the final write off of the loan, advance or investment will be disclosed after the operating results on the Summary of Revenue and Expenditure along with details as to the year in which the allowance was recorded.

Payments made by the Government for the purposes of acquiring property or physical assets are classified in a separate category of expenditure called "Expenditures Related to Capital Assets" and are defined as follows:

a) Expenditures for property of all kinds, both real property and chattels, purchased or self-constructed for use by Government that are deemed to have an economic life in excess of one year.

b) Expenditures for projects or activities which entail major renewals, modification or modernization by own labour forces or on behalf of the Government. The expenditures should significantly prolong the expected economic life of the asset.

c) The principal portion of a debt repayment when the debt was incurred to acquire a physical asset and the acquisition cost of the physical asset was not previously reflected in the Consolidated Fund as an expenditure.

d) Grants or assistance payments to municipalities, school divisions, external agencies, commercial organizations and private individuals which are known to be for the purchase, construction or improvement of physical assets.

III. ASSETS AND LIABILITIES

The statement of the Operating Fund Assets and Liabilities is prepared in accordance with the following practices:

1. **TEMPORARY INVESTMENTS**
This category includes securities held as a result of the investment of the Government's cash flow and is generally comprised of money market instruments such as term deposits and negotiable securities which are intended to be held for a short term. All investments are shown at cost.

2. **ADVANCES AND OTHER RECEIVABLES**
Advances to Crown Corporations, Agencies, Boards and Commissions, which are generally interest bearing, are shown under this heading as well as financial claims on the Government of Canada and other parties. Amounts due within one year of the statement date are shown as "Current Amounts" and all others are classified as "Not Current". Balances under the advances category are not separated into a current portion and non-current portion even though repayment schedules may exist for some of these items. The Sinking Funds provided by Crown Corporations, Agencies, Boards and Commissions for repayment of the debt issued to fund advances to these entities are deducted from the advances.

   Certain of the Crown Corporations are charged with a responsibility for administering Government programs for which they receive funds from Government appropriations. These funds are applied by the Corporation towards the program administration cost, including, in some cases, a portion of the interest they are charged on these advances. The principal repayment and/or interest charges for certain of the advances are dependent on total or partial funding from future appropriations of the Operating Fund.

3. **LONG-TERM INVESTMENTS**
The majority of the Province's long-term investments consist of shares and debentures of Crown Corporations. These investments are carried at cost which does not reflect the realizable value of the investments. Any decrease in the estimated realizable value is provided for in the Allowance For Losses On Realization Of Assets, which is described in the next paragraph.

4. **ALLOWANCE FOR LOSSES ON REALIZATION OF ASSETS**
An allowance is provided for decreases in the value of loans, advances and investments and is adjusted annually for changes that may occur in the estimated realizable value of these assets. The allowance is intended to provide for the accumulated deficits of the Crown Corporations, Agencies, Boards and Commissions in which the Government has invested money by way of loans, advances or purchases of shares. The valuation is based on the most recent audited financial statements applicable to the fiscal year being reported that are available at the time of publication of the Public Accounts. If the Government has more than one type of investment in an organization (eg. common shares, preferred shares and debentures), the accumulated deficit is assigned against the investments in order of priority on liquidation.

5. **EXCESS OF LIABILITIES OVER RECORDED ASSETS AND OTHER OBLIGATIONS HELD BY THE PROVINCE CONSIDERED TO BE SIMILAR IN NATURE:**

   a) **SERIAL DEBENTURES OF SCHOOL DIVISIONS AND DISTRICTS, TRANSFERRED FROM THE MANITOBA SCHOOL CAPITAL FINANCING AUTHORITY**
   The School Capital Financing Authority Act was repealed April 1, 1983 at which date all investments and money held by the Authority, as well as debt payable by the Authority, were assumed by the Government. The investments transferred to the Government consisted of serial debentures issued by school divisions and districts for which the Government is primarily responsible for repayment. Accordingly, an annual appropriation is made in the Consolidated Fund to cover the principal and interest costs of these debentures.

   The cash drawn from this appropriation for the required annual principal repayments is transferred to the Province's sinking fund where it will be used for repayment of the debt assumed from the Authority. A similar treatment would be accorded any proceeds from the sale of the school debentures.

   b) **SECURITIES RECEIVED FROM THE SALE OF LAND AND BUILDINGS TO MANITOBA PROPERTIES INC.**
   Land and buildings, which were valued at $532,995,036 were sold to two crown corporations, Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. on August 1, 1984. Under the purchase arrangement, the properties were resold to Manitoba Properties Inc. at the same price. In addition to cash, the purchase consideration received from the sale consisted of common shares of Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. and a promissory note from Manitoba Properties Inc.

   The recorded value of the common shares has been reduced by a special valuation account which was established from a portion of the sale proceeds and is used to reflect the diminution of the value of these shares as the result of dividends paid to preferred shareholders of Manitoba Properties Inc. Manitoba Properties Leasing Inc. and Manitoba Proper-

ties Management Inc. jointly own all the common shares of Manitoba Properties Inc. and the value of their equity in these shares decreases annually with the payment of dividends by the latter to preferred shareholders.

The interest payable to the Province on the promissory note is funded from the annual rental payments made by the Province to Manitoba Properties Inc. and is therefore dependant on future appropriations of the Consolidated Fund.

c) **EXCESS OF LIABILITIES OVER RECORDED ASSETS**
This account and the two accounts previously described represent the difference between liabilities, which are financial claims owing by the Government, and recorded assets, which are financial claims receivable by the Government. Since the physical assets and materials inventories of the Government do not constitute a financial claim receivable by the Government, they are not considered in the determination of this balance.

6. **AMOUNT OWING TO THE TRUST FUND**
A large portion of this money has been deposited with the Minister of Finance in accordance with the terms of the legislation regulating the management of sinking funds and surplus cash of Crown Corporations, Agencies, Boards and Commissions, but is not specifically invested. Such deposits are accorded a market rate of interest.

7. **BANK OVERDRAFT AND PROMISSORY NOTES**
This category represents the net overdraft in Government bank accounts adjusted for cheques issued prior to and not presented for payment at March 31 and for cash in transit. Short-term promissory notes are issued in lieu of increasing bank overdraft or liquidating investments to accommodate fluctuations in the cash flow cycle and are therefore considered together with the bank overdraft. Cheques issued subsequent to March 31 but chargeable to the fiscal year just ended are described in the next category.

8. **ACCOUNTS PAYABLE, ACCRUED CHARGES AND FUNDS SUBJECT TO CALL**
Cheques issued during the forty-five day period after March 31, in payment for goods and services pertaining to the fiscal year just ended are shown as accounts payable rather than as outstanding cheques.

Accrued charges represent the accrual of interest on provincial securities.

Funds subject to call consist in part of money received from the Government of Canada that will not be taken into revenue until earned. This was earlier described as Deferred Revenue in paragraph 1b). As well, this category includes the liability for uninvested cash belonging to the Provincial Sinking Fund. This cash is designated as part of the Provincial Sinking Fund and must be kept available for investment.

9. **BONDS, DEBENTURES AND OTHER LONG-TERM DEBT**
This category includes bonds, debentures, secured loans from the Government of Canada, treasury bills and notes. Securities issued in Canadian Funds are recorded at par value. Securities issued in foreign funds are recorded at the Canadian Dollar equivalent of the par value based on the actual conversion of the proceeds or at the exchange rate in effect at the date of issue if conversion does not take place at issue date. Securities payable in foreign funds issued for the purpose of refunding other issues payable in the same currency are recorded at the Canadian Dollar equivalent of the par value at the date of issue.

The Government is required, by legislation, to determine the Canadian Dollar equivalent of provincial securities issued in foreign currencies or units of monetary value at March 31st of each year. The amount determined must be published in the Public Accounts as information regarding the current valuation of this foreign debt. This statement is included in Section 3 of the Public Accounts.

10. **SINKING FUNDS PROVIDED**
Sinking Funds are maintained in accordance with the legal requirements of the debt instruments and the Financial Administration Act. Money is allocated annually to these sinking funds on the following basis:

a) A sum equal to 3% of the aggregate amount of general purpose debt, in Canadian Dollars, outstanding at the end of the preceding fiscal year; and

b) All earnings derived from investing the sinking fund.

In addition, principal repayments of advances which are funded by the issue of provincial securities are deposited to the sinking fund provided that the principal repayments are made prior to the maturity date of such securities.

The total shown for sinking funds also includes sinking fund money provided by Crown Corporations, Agencies, Boards and Commissions in respect to debt incurred on their behalf by the Government.

11. **DEBENTURES ISSUED UNDER FINANCIAL ASSISTANCE AGREEMENTS**
Bonds, debentures and other long-term debt include debentures issued under agreements with the Credit Union Stabilization Fund and Les Fonds de Securite des Caisses Populaires whereby these organizations received advances in the form of provincial debentures which are required to be cancelled at maturity. The purpose of this arrangement was to provide for financial assistance to the aforementioned entities during the term of the debentures consistent with the interest payable on these debentures.

IV. TRUST FUNDS

The Trust Fund is divided into two primary divisions Administered Trusts and Custodial Trusts. The

trusts where the Government has the responsibility for the administration and for investment of the trust are considered Administered Trusts. Those trusts where the Government responsibility is custodial in nature and there is little or no administration responsibility are considered Custodial Trusts. Generally, the responsibility for investment of a Custodial Trust is that of the depositor. A statement of Assets and Liabilities for the Trust Fund is included in the Public Accounts showing the assets and liabilities for Administered Trusts. Details of Custodial accounts are set out in a note to the statement of Assets and Liabilities.

Administered Trusts are divided into five categories:

1. Sinking Funds—This category includes sinking fund contributions deposited with the Minister of Finance by Crown Corporations, Agencies, Boards and Commissions in respect of their direct debt.
2. Funds on Deposit For Investment—Funds surplus to the immediate cash requirement of Crown Corporations, Agencies, Boards and Commissions are deposited for investment with the Minister of Finance. Although certain of these deposits are covered by specific investments in the Trust Fund, the majority of these funds are invested with the Minister of Finance and interest is paid at market rates in accordance with the term of the investment.
3. Banking Facility Accounts—These accounts are operated for those Crown Corporations, Agencies, Boards and Commissions who bank with the Minister of Finance.
4. Operating Trusts—Certain trusts are established where legislation or agreements require receipts and related expenditure to be kept separate from Government revenue and expenditure. These "designated trusts" may, in some cases, be used for programs similar to those operated from appropriated funds but are kept separate because a trust requirement has been established. A separate Statement of Receipts, Payments and Transfers is prepared for each of these operating trusts and is published in the Trust Fund section of the Public Accounts.
5. Miscellaneous Trusts—This category contains trust accounts resulting from the sundry deposit of cash and/or securities with the Government.

V. CHANGES IN FINANCIAL POSITION

A statement presenting the changes in the Government's financial position during the fiscal year is included in Section 1 of the Public Accounts. For purposes of this statement, working capital is defined to include the following:

a) Cash

b) Temporary Investments

c) Current portion of advances and other receivables

Minus

d) Amounts owing to the Trust Fund

e) Bank overdraft and promissory notes

f) Accounts payable, accrued charges and funds subject to call

VI. CHANGES IN ACCOUNTING POLICY

Section 10 of the Financial Administration Act requires a statement of any change in the accounting policies of the Government from those followed in the preceding fiscal year. There were no changes in accounting policies during the fiscal year ended March 31, 1985.

ties Management Inc. jointly own all the common shares of Manitoba Properties Inc. and the value of their equity in these shares decreases annually with the payment of dividends by the latter to preferred shareholders.

The interest payable to the Province on the promissory note is funded from the annual rental payments made by the Province to Manitoba Properties Inc. and is therefore dependant on future appropriations of the Consolidated Fund.

c) **EXCESS OF LIABILITIES OVER RECORDED ASSETS**
This account and the two accounts previously described represent the difference between liabilities, which are financial claims owing by the Government, and recorded assets, which are financial claims receivable by the Government. Since the physical assets and materials inventories of the Government do not constitute a financial claim receivable by the Government, they are not considered in the determination of this balance.

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A large portion of this money has been deposited with the Minister of Finance in accordance with the terms of the legislation regulating the management of sinking funds and surplus cash of Crown Corporations, Agencies, Boards and Commissions, but is not specifically invested. Such deposits are accorded a market rate of interest.

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In addition, principal repayments of advances which are funded by the issue of provincial securities are deposited to the sinking fund provided that the principal repayments are made prior to the maturity date of such securities.

The total shown for sinking funds also includes sinking fund money provided by Crown Corporations, Agencies, Boards and Commissions in respect to debt incurred on their behalf by the Government.

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e) Bank overdraft and promissory notes

f) Accounts payable, accrued charges and funds subject to call

VI. CHANGES IN ACCOUNTING POLICY

Section 10 of the Financial Administration Act requires a statement of any change in the accounting policies of the Government from those followed in the preceding fiscal year. There were no changes in accounting policies during the fiscal year ended March 31, 1985.